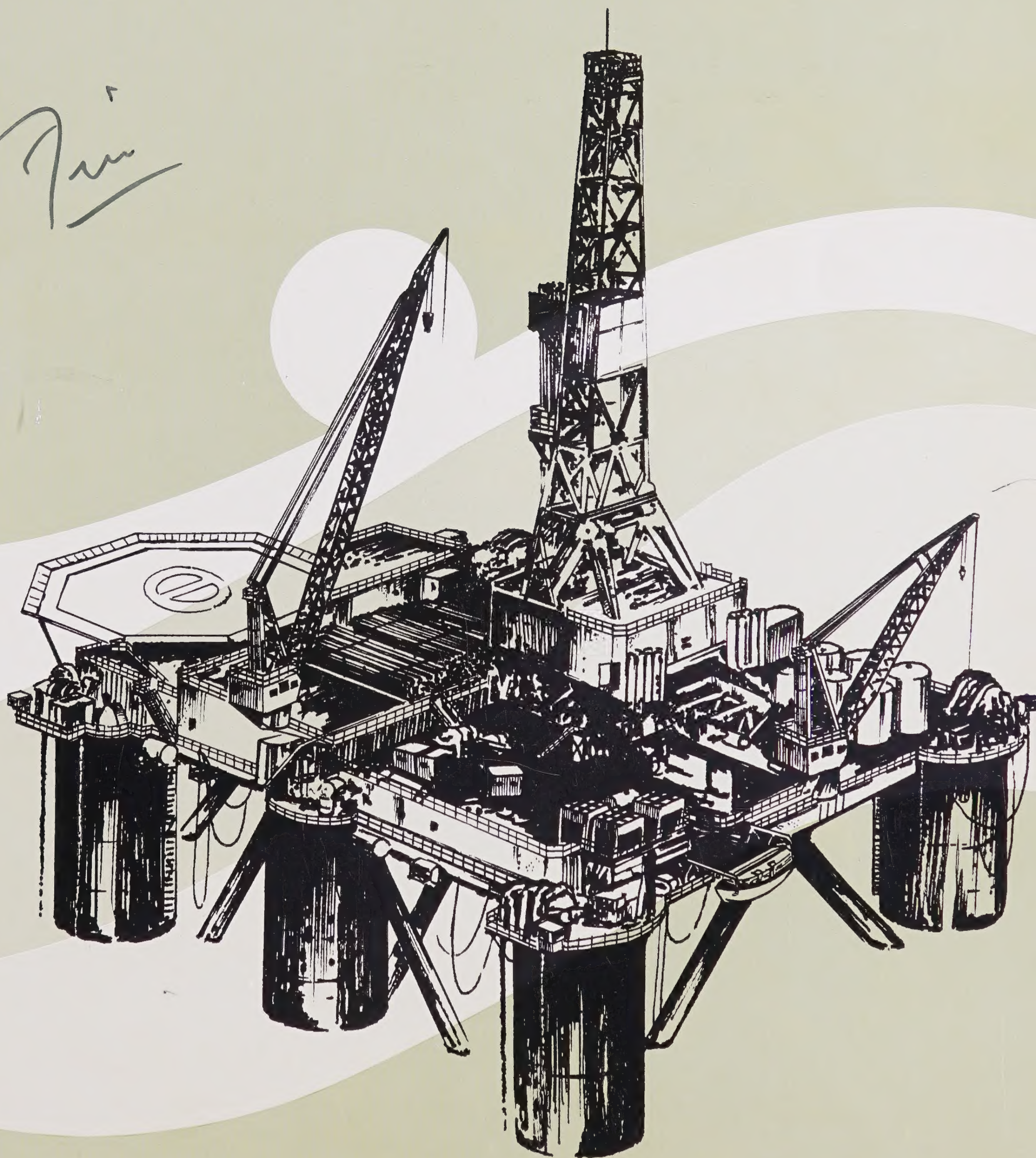
Siebens
OIL & GAS LTD.

1975 Annual Report



Directors

J. H. Coleman, Toronto, Ontario
President, J.H.C. Associates Limited

F. N. Hughes, Edmonton, Alberta
President, Oil Patch Industries Ltd.

J. G. Hutchison, Calgary, Alberta
Financial Consultant

W. D. C. Mackenzie, Calgary, Alberta
President, W.D.C. Mackenzie Consultants Ltd.

W. W. Siebens, Calgary, Alberta
President, Siebens Oil & Gas Ltd.

P. W. Wood, Winnipeg, Manitoba
Vice-President, Finance
Hudson's Bay Company

Officers

W. W. Siebens, President
J. A. Dabbs, Vice President
D. E. McPhee, Secretary
V. J. Zaleschuk, Treasurer-Comptroller

Senior Personnel

R. G. Gould, Foreign and Special Projects Manager
W. A. McLean, Production Manager
L. R. Bullock, Chief Geologist
B. H. Martin, Foreign Operations Manager — London Office
J. W. Rogers, Offshore Drilling Manager — London Office

Head Office

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Subsidiaries

Siebens Oil & Gas (Malta) Limited
Siebens Oil & Gas (S.E. Asia) Ltd.
Siebens Oil & Gas (Vietnam) Ltd.
Siebens Oil & Minerals, Inc.

Affiliates

Siebens Oil & Gas (U.K.) Limited
Hibernian Oil & Gas Limited

Bankers

The Royal Bank of Canada
Calgary, Alberta

Auditors

Thorne Riddell & Co.
Calgary, Alberta

Solicitors

Macleod Dixon
Calgary, Alberta

Registrars and Transfer Agents

Montreal Trust Company
Calgary, Vancouver, Regina, Winnipeg,
Toronto, Montreal

Stock Exchange Listings

Toronto Stock Exchange
Canadian Stock Exchange

Siebens
OIL & GAS LTD.

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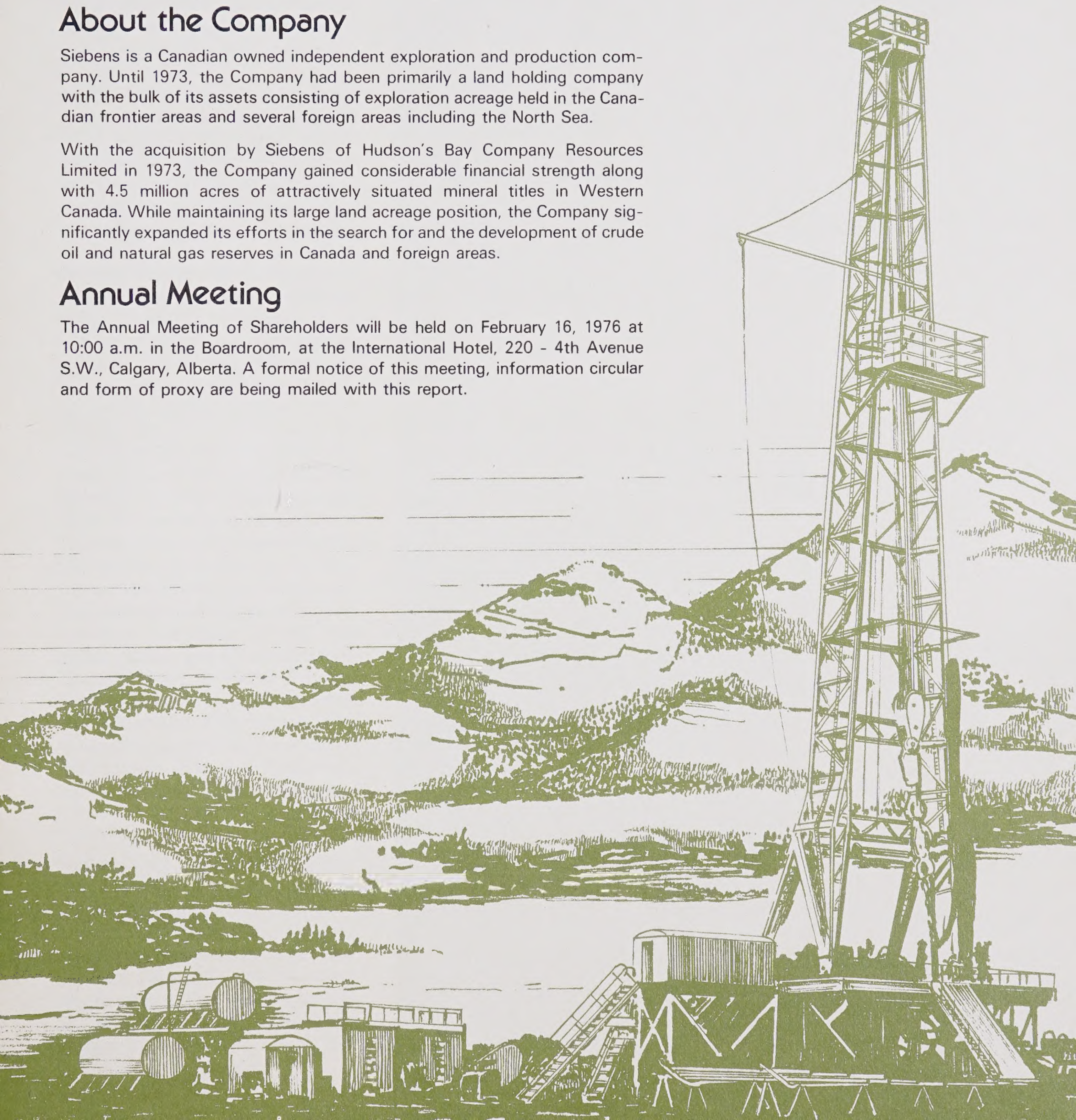
About the Company

Siebens is a Canadian owned independent exploration and production company. Until 1973, the Company had been primarily a land holding company with the bulk of its assets consisting of exploration acreage held in the Canadian frontier areas and several foreign areas including the North Sea.

With the acquisition by Siebens of Hudson's Bay Company Resources Limited in 1973, the Company gained considerable financial strength along with 4.5 million acres of attractively situated mineral titles in Western Canada. While maintaining its large land acreage position, the Company significantly expanded its efforts in the search for and the development of crude oil and natural gas reserves in Canada and foreign areas.

Annual Meeting

The Annual Meeting of Shareholders will be held on February 16, 1976 at 10:00 a.m. in the Boardroom, at the International Hotel, 220 - 4th Avenue S.W., Calgary, Alberta. A formal notice of this meeting, information circular and form of proxy are being mailed with this report.



Financial and Operating Highlights

Financial	1975	1974	Increase (Decrease) Percent
Gross Revenue	$11.547,981	$ 8,683,234	33.0
Cash Flow from Operations	9,581,549	7,739,590	23.8
Per Share	1.04	.84	
Net Income	5,552,961	3,952,565	40.5
Per Share	.60	.43	
Working Capital at October 31	(1,306,117)	6,180,178	(121.1)
Exploration and Development Expenditures	9,230,061	8,718,741	5.9
Shareholders' Equity	27,805,648	22,252,687	25.0
Shares Outstanding	9,185,065	9,184,700	—

Operating			
Crude Oil & Nat. Gas Liquids Production Barrels Per Day	3,160	3,542	(12.1)
Natural Gas Sales — Thousand Cubic Feet Per Day	18,100	16,352	10.7
Proven and Probable Reserves in Barrel Equivalents (*)	36,565,000	30,958,800	18.1
Acreage Holdings			
Canada			
Gross	33,080,808	60,745,926	(45.5)
Net	14,156,057	33,290,573	(57.5)
Foreign			
Gross	9,037,020	14,144,537	(36.1)
Net	5,657,763	2,670,329	111.9
Royalty Acreage			
Canada	39,162,208	41,530,455	(5.7)
Foreign	20,248	43,161	(53.1)
Drilling Record			
Exploration			
Oil	5	2	
Gas	20	6	
Dry	12	17	
Development			
Oil	3	7	
Gas	29	8	
Dry	2	5	
Farmout and Royalty Wells			
Oil	4	1	
Gas	7	14	
Dry	12	13	
HBOG Wells			
Oil	29		
Gas	43		
Dry	15		

(*) Note — equivalent reserves for both years are calculated on the same basis.

To The Shareholders:

I am pleased to have this opportunity to report to you on another successful year experienced by your Company. Growth in earnings, cash flow and hydrocarbon reserves continued and a solid earning base has been established ensuring future growth and exploratory successes.

Gross Revenues increased by 33% to $11,548,000 with corresponding cash flow up 24% to $9,582,000 or $1.04 per share. Net earnings increased 40% to $5,553,000 or 60 cents per share as compared with 43 cents for the previous year. Exploratory and development expenditures amounted to $9,230,000 as we continued with an aggressive exploration and development program in Western Canada despite grave uncertainties created by the political confrontation between the oil producing provinces and the Federal Government over the sharing of taxes and royalties on oil and gas production in Canada. Fortunately, our decision to continue exploring in Alberta proved to be the right one. As the governments resolved some of their differences, the severe taxation policies introduced in 1974 were somewhat eased in 1975; when combined with rising product prices during the year, a reasonable return on production in Alberta appears to be assured. Recently, other Western Provinces have also indicated their willingness to modify their previously unreasonable stand towards taxation and royalty payments which may renew exploratory interest in those provinces.

During the past year, the Company participated in 37 exploratory wells and 34 development wells with a success ratio of 68% and 94% respectively. In addition, approximately 110 wells were drilled by other parties on Company acreage. The majority of these wells were drilled by Hudson's Bay Oil and Gas Company Limited or

its designated farmees on mineral title acreage.

This intense drilling activity resulted in a significant 38% increase in natural gas reserves. Many of our successes will be placed on production during 1976 and we estimate that gross revenues after deduction of Crown royalties will exceed $20 million during the 12 months ending October 31, 1976. The estimated resultant cash flow of $16.6 million, after providing for current income taxes, is budgeted for expenditure on further exploration and development during that period.

In the North Sea, where the Company's affiliate Siebens Oil & Gas (U.K.) Ltd. has numerous interests, drilling success was achieved in Blocks 2/10 and 16/7 in the United Kingdom sector. The initial well drilled during 1975 in Block 2/10 penetrated a considerable thickness of Jurassic oil sands which could not be production tested due to mechanical problems. Information obtained, however, was quite encouraging and a program of delineation drilling commenced later in the year. The first step-out well to the south of the discovery well was recently abandoned after encountering a thick Jurassic sandstone interval containing only a trace of oil saturation. The results of this well are disappointing but the geological information obtained indicates the possibility of a more favourable environment further north. A second delineation well, 2/10-3, will test this concept at a location to the northeast of the discovery.

Two discoveries were drilled during 1975 in Block 16/7 by the Pan Ocean group in which Siebens (U.K.) is a participant. The first well, a deep test, found over 500 feet of productive Jurassic sandstones which tested large quantities of oil and natural gas. The discovery was subsequently named the Brae Field. A second exploratory well, drilled on a separate feature a few miles to the west, discovered Tertiary oil and gas reserves at a relatively shallow depth. The Pan Ocean group are currently drilling a delineation well to the Brae discovery, the results of which are encouraging to date.

In May of 1975, Siebens (U.K.) raised approximately $20 million through a rights offering to its shareholders. By subscribing for shares in excess of its allotment, the Company increased its shareholdings in Siebens (U.K.) from 27.23% to 31.7%. The cost to the Company amounted to $8,600,000. The funds raised by Siebens (U.K.) are expected to be adequate for its appraisal and delineation programs.

In keeping with its philosophy of searching for large reserves around the world, the Company during the year negotiated a production sharing agreement with the Peoples Democratic Republic of Yemen covering a portion of the Island of Socotra and the adjacent offshore continental shelf. Aeromagnetic surveys have been completed and will be followed by marine seismic programs.

Prior to 1975, Siebens Oil and Gas Ltd. had never ventured into mineral exploration but with the rapid depletion of conventional hydrocarbon sources of energy taking place, we felt it was very important to this Company to commence exploring for other energy sources and during the past year, we entered into a joint exploration program for uranium. Our partner in this venture is an experienced uranium explorer and we look forward to participation in this exciting new venture.

The new fiscal year is expected to be one of continued progress and successful results. Activity is at a peak in many of our most promising areas of interest. With increasing cash flows providing a larger exploration budget, we feel confident that growth can be accelerated further. However, we are concerned with the continued growth of government at most levels and in many functions. Exploration companies have traditionally depended upon capital markets for exploration and development funds. In recent years these markets have been eroded by governments' continual demand for funds, the result of poor fiscal planning and economic management. Additionally, we must now compete with various political entities who themselves are commencing exploration activities on a preferential basis. Governments are not disciplined by having to achieve a return on investment and as a result the entire capital market system may be in jeopardy. The past decade has been viewed as one during which many freedoms were attained for the individual, but in the process a bureaucratic structure has been created that may not only destroy our economic system but also individual freedoms.

On behalf of the Board of Directors, I would like to acknowledge the contributions made by our employees for they are our most important asset.

ON BEHALF OF THE BOARD

Wm. W. Siebens

W. W. Siebens
President

December 16, 1975

Canadian Exploration

Year in Review

A greatly expanded drilling program in 1975 has resulted in significant additions to the Company's total natural gas reserves.

The Company has concentrated on natural gas exploration and development and, during a period when reserves in Western Canada have been declining, the Company is pleased with its drilling results for the past year. Moderate success has been achieved in the discovery of additional oil reserves and as a result proved and probable oil and natural gas liquid reserves have shown only a small decline. The acquisition in 1973 of substantial oil reserves from the Hudson's Bay Company provided Siebens with a producing royalty interest position in every major oil field in Alberta and Saskatchewan south of the North Saskatchewan River. It is the natural decline from this source which has contributed to the decrease in the Company's reserves. However, as an aggressive exploration company, Siebens intends and expects to not only replace but add to its total petroleum and natural gas reserves.

An analysis of the adjoining chart indicates the Company participated in 37 exploratory wells and 34 development wells, compared with 25 exploratory wells and 20 development wells in 1974. A success ratio for exploratory and development drilling of 68% and 94% respectively, is indicative of the capability of the Company's exploration team. It should also be noted the net interest position of the Company with respect to the exploratory and development wells drilled. Of the 37 exploratory wells, the Company had a net participating share of 86% or 31.8 wells. Of the 34 development wells, the Company had a net participating share of only 24%, or 8.3 wells. This would indicate an emphasis of cash flow dollars towards an exploratory drilling program and also reflects the increasing dependence upon company personnel to generate exploratory projects from within the Company rather than participation with third parties via the farmin procedure, which results in a greater cost exposure but lower net interest per project. A rapidly improved cash flow position has certainly contributed toward this independence and we can look forward to a significant increase in internally generated exploratory projects for the immediate future.

With few exceptions, the Company operated all of the 71 wells drilled and it was necessary to add to our engineering and geological staff to allow for this increased activity. The map on the next page indicates the majority of drilling was conducted in Alberta where shallow gas prospects are drawing Industry's attention at the present time.

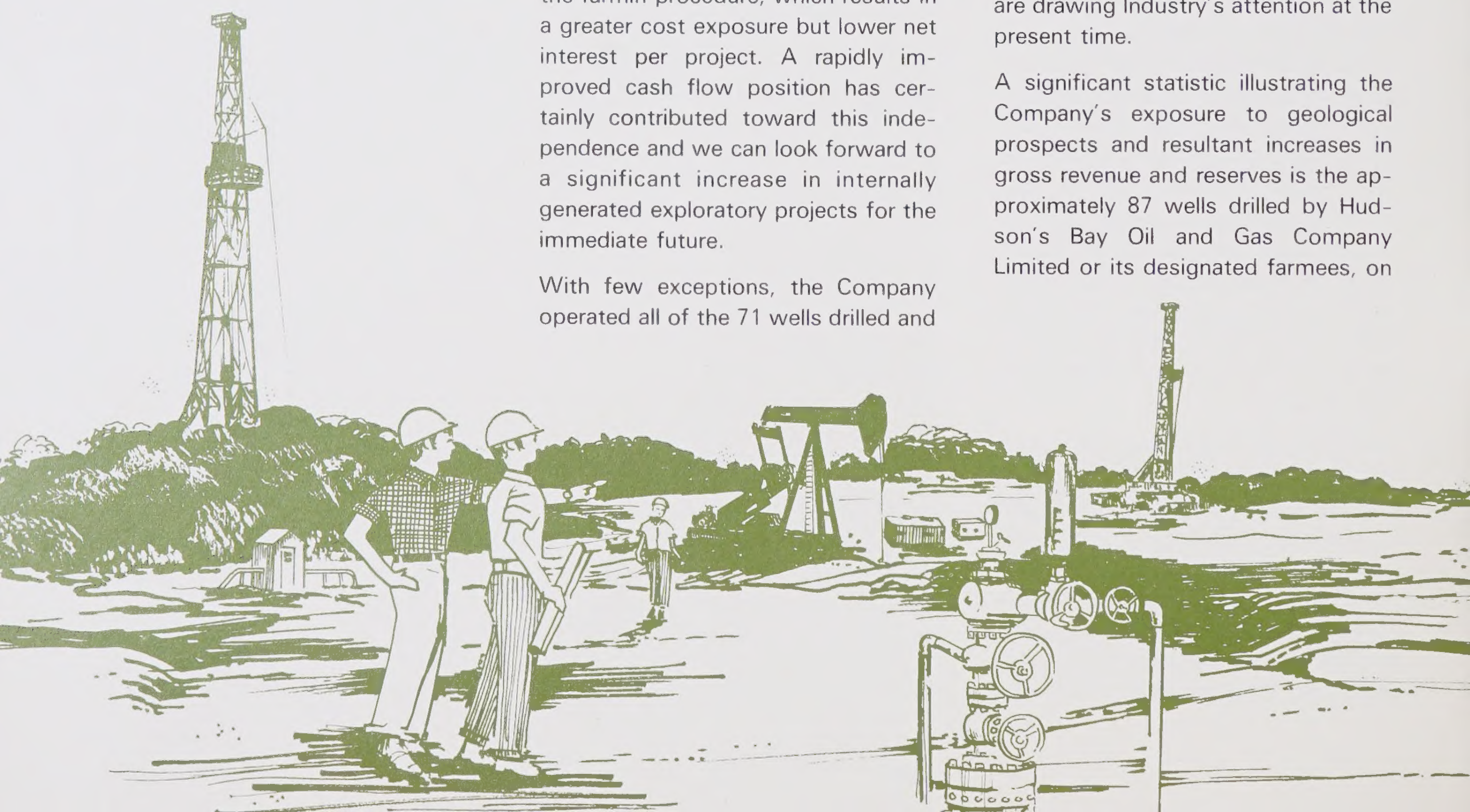
1975 Well Completions

	Working Interest Gross	Working Interest Net
Exploratory		
Oil	5	5.0
Gas	20	17.2
Dry	12	9.6
Development		
Oil	3	0.7
Gas	29	7.2
Dry	2	0.4
Total	71	40.1

	Third Party Completions Oil	Gas	Dry	Total
*HBOG Agreement	29	43	15	87
Farmout Wells	3	4	11	18
Royalty Wells	1	3	1	5
	33	50	17	110

*Not verified by HBOG

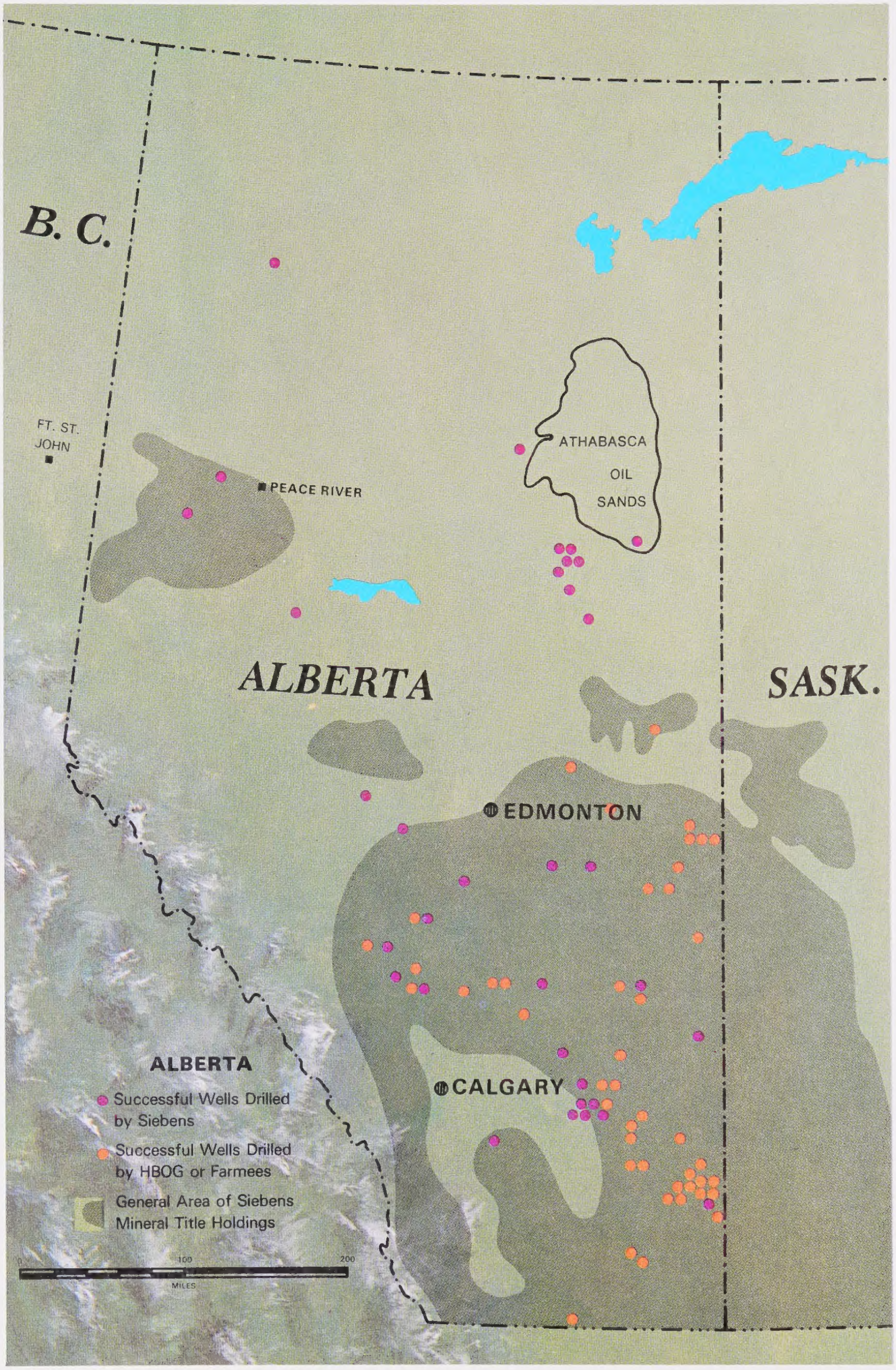
A significant statistic illustrating the Company's exposure to geological prospects and resultant increases in gross revenue and reserves is the approximately 87 wells drilled by Hudson's Bay Oil and Gas Company Limited or its designated farmees, on



the Company's mineral title holdings. These locations are also shown on the accompanying map. This figure has not been verified by HBOG but is believed to be accurate within one or two wells. HBOG holds a long term option on these properties in which your Company retains a 12-1/2% Lessor's royalty on oil and 16-2/3% Lessor's royalty on natural gas. The royalty payable to the Company on any wells drilled after January 1, 1976 will be increased to 20%.

A new agreement signed by the Company and HBOG amends the terms of the previous option agreement to allow the Company to drill and operate its own internally generated exploration and development program on any of the Company's mineral title holdings under option to HBOG in the event HBOG is not prepared to do so. This new agreement has added additional scope to our exploration plans and philosophy, especially in the Province of Alberta.

The Company intends to drill and operate a minimum of 90 exploratory and development wells during 1976 in the Province of Alberta. Our previously discussed success in the drilling of exploratory wells this past year will result in a substantial expenditure for development work and the construction of various facilities in order to place our 1975 discoveries on production. With the economics for natural gas discovery in British Columbia having improved with the recent announcements by that Province, a moderate drilling program will be commenced this winter in British Columbia. Saskatchewan continues its unreasonable and socialistic approach toward the oil industry and the Company plans no drilling programs for that Province.



Land Holdings

The Company has proceeded in the past two years to substantially reduce its acreage holdings in Western Canada and the Canadian Frontier areas.

The reduction in Alberta and Saskatchewan has been the result of a change in the Company's exploration policy dictated, in part, by stiffer land tenure regulations and governmental policy but primarily by an effort of the Company to be involved in more geologically attractive areas.

As a result of this policy, the Company surrendered over one million acres of P & NG Reservations in Northern Alberta considered expendable in relation to the mounting rental and work obligations to be incurred if the land were held in inventory.

The Company continued to scrutinize its fee mineral rights acquired from the Hudson's Bay Company in 1973, and elected to surrender an additional 108,537 acres in the Province of Saskatchewan and 647,691 acres in the Province of Manitoba. Rigid land regulations and high mineral acreage taxes in these Provinces will dictate continued analysis of our holdings.

The Company's 50% interest in 2,079,899 gross acres located off the west coast of Banks Island was recently assigned to another company with Siebens retaining a gross overriding royalty on the assigned lands.

Applications filed by the Company with the Federal Government on 15,472,679 gross acres (10,315,120 net acres) off the Labrador Coast and previously pending issuance of exploratory permits, were cancelled this past year after announcement that the Government would no longer consider issuing permits upon application. This illustrates why exploration companies have concern over the delay in promulgation of new land regulations which would clarify the disposition of Crown lands.

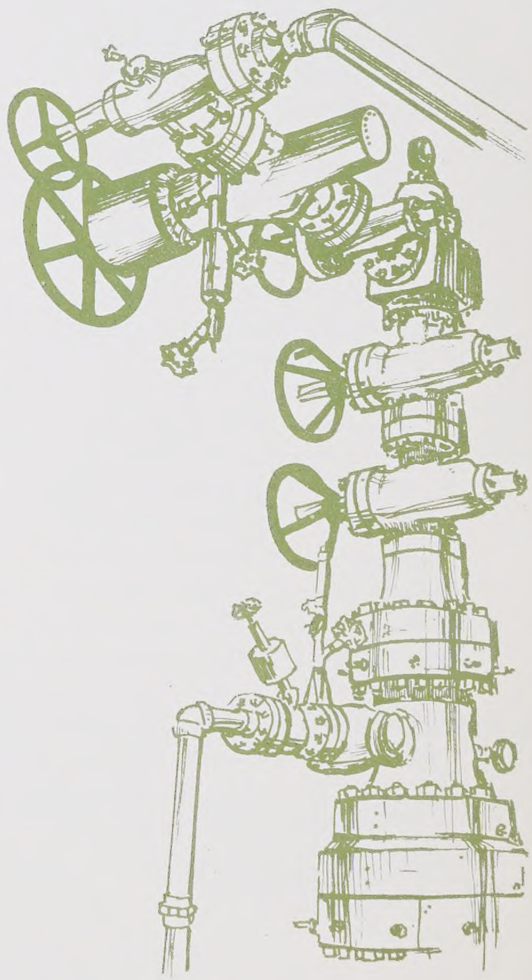
The Company also surrendered its 40% interest in 1,801,715 gross acres of exploratory permits located off the Labrador Coast which were considered non-prospective after evaluation of seismic data obtained over the lands.

It is evident from recent high prices paid for mineral rights in the Province of Alberta, that to compete in geologically attractive acres is an increasingly expensive venture and during the past year the Company spent $1,820,370 in the acquisition of mineral rights in Alberta. The accompanying chart gives some indication of the locations of newly acquired mineral rights and their relative costs to the Company.

Location	Cost Per Lease Acre	Total Cost
Brazeau River	$ 371.29	$ 297,028
Caroline	187.07	568,682
Cache Ck.	33.76	125,325
Bede Ck.	4.00	53,551
Obed	314.37	321,914
Other		453,870
Total Cost		$1,820,370

Two oil wells were drilled on the Company's acreage in the Caroline prospect with additional drilling planned for 1976. The Obed prospect resulted in a dry hole and the Brazeau River, Cache Creek and Bede Creek areas will have exploratory work conducted in 1976 or 1977.

The new land tenure regulations expected to take effect in the Province of Alberta in 1976 will cause a more rapid turnover of lands held by Industry through the reduction of the lease term and increased rental and work obligations. These regulations are expected to benefit companies of the size and nature of Siebens Oil & Gas Ltd.



Canadian Land Holdings

Working Interest Properties

Geographical Area	Nature of Interest	Gross Acres 1975	Gross Acres 1974	Net Acres 1975	Net Acres 1974
Alberta	P & NG Reservations	**943,181**	2,190,107	**854,863**	2,010,667
	Drilling Reservations	**28,480**	27,840	**14,284**	12,113
	Permits	**19,240**	21,920	**16,040**	21,920
	Leases	**653,890**	501,143	**429,755**	333,168
	Mineral Titles	**1,603,575**	1,603,575	**1,603,575**	1,603,575
Saskatchewan	Permits	—	125,760	—	45,640
	Leases	**118,521**	10,386	**36,170**	4,940
	Mineral Titles	**1,327,146**	1,435,682	**1,227,146**	1,435,682
British Columbia	Permits	**129,315**	54,460	**47,267**	39,782
	Leases	**8,157**	6,226	**1,906**	941
Manitoba	Mineral Titles	**38,869**	686,560	**38,869**	686,560
Northwest Territories	Permits	**230,371**	230,371	**115,191**	115,191
Mackenzie Delta-Beaufort Sea	Permits	**550,727**	2,630,626	**275,365**	1,230,882
Hudson Bay	Permits	**4,516,634**	4,516,634	**454,242**	981,303
Eastern Canada-Offshore	Permits	**11,723,331**	34,509,980	**6,244,043**	21,468,226
Arctic Islands	Permits	**11,189,371**	12,194,656	**2,797,341**	3,299,983
		33,080,808	60,745,926	**14,156,057**	33,290,573

Royalty Interest Properties

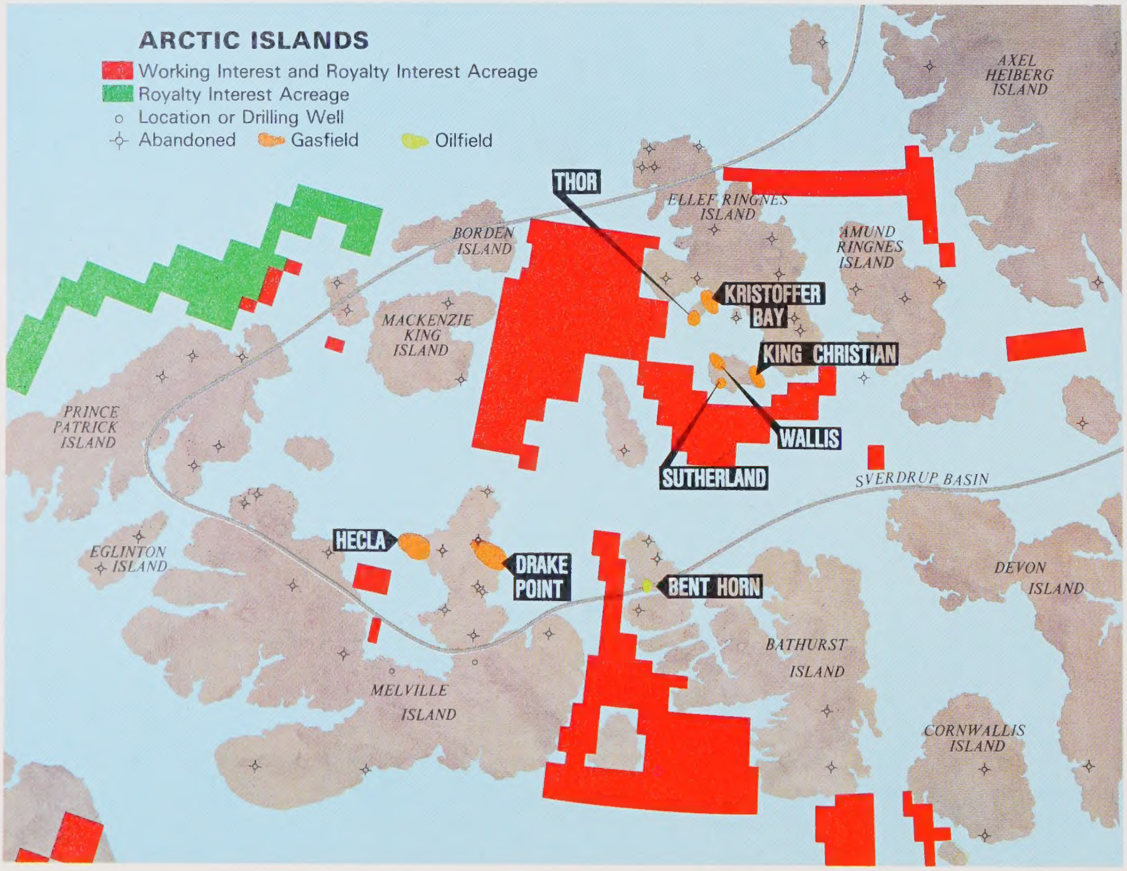
Geographical Area	Gross Royalty Acreage 1975	Gross Royalty Acreage 1974
Alberta	**612,767**	736,865
Saskatchewan	**86,850**	123,752
British Columbia	**355,789**	823,531
Ontario	—	1,260,056
Hudson Bay	**6,569,064**	7,467,494
Northwest Territories & Arctic Islands	**27,846,987**	26,584,160
Eastern Canada-Offshore	**3,690,751**	4,534,597
	39,162,208	41,530,455

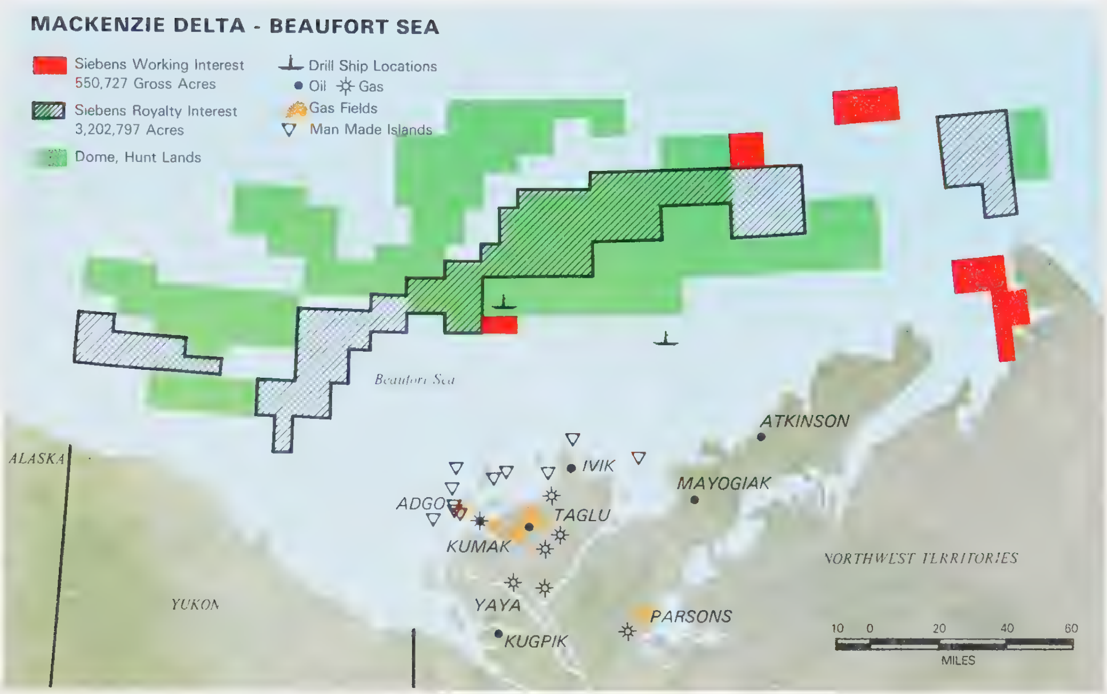
Arctic Islands

After almost eight years of exploration operations in the Arctic Islands and the discovery of approximately 13 trillion cubic feet of natural gas reserves, Panarctic Oils Ltd. announced in October that it had encountered what may be the first commercial oil find in this area. A follow-up to last year's initial well which yielded a modest 500 BOPD, the Bent Horn N-72 well on Cameron Island is reported to have flowed 43° API gravity oil from Devonian reefal carbonates at a depth of 10,030 feet. Preliminary testing indicated an average flow of 5,300 BOPD with 17% water over a 47 hour period, with rates up to 30,000 BOPD for short periods. A delineation well is required before a valid estimate of reserves is possible but the structure was reported as five or six miles in length and about one mile in width. In order to be commercial, 200 to 300 million barrels of recoverable reserves would be required before production facilities and ice breaking tankers are ordered.

This encouraging oil discovery by Panarctic Oils comes after 100 wells have been drilled in the Arctic Islands at a total cost, including seismic, of some $350 million. The delay by the Federal Government in announcing new land regulations has caused a great deal of concern on the part of exploration companies with respect to the uncertain nature of future work obligations and government royalties on Crown lands in the frontier areas. The discovery of possible commercial oil reserves by Panarctic together with land regulations which provide incentives to the exploration companies will add impetus to exploration activities in the Arctic.

Early in 1975, the Company announced an agreement had been reached with Phillips Petroleum Canada Ltd. whereby Phillips may earn an interest in 6,725,782 gross acres held 25% by Siebens in the Sverdrup Basin of the Arctic Islands. By meeting all work obligations for permit renewals and leases selected therefrom and assuming Siebens' share of the $41 million Arctic Islands Offshore Group seismic program, Phillips will have an option to commence a multi-well exploratory drilling program on the lands in order to earn its interest. Phillips also has an option, subject to similar obligations, to earn an interest in 3,711,326 gross acres held 25% by Siebens located between Melville and Bathurst Islands. Siebens will retain a sizeable interest to be carried by Phillips during all phases of operations including development drilling and installation of production and transportation facilities. This agreement will





free the Company from the financial obligations required to maintain its Arctic Islands holdings and still provides Siebens with a substantial interest in one of the more prospective Canadian frontier areas.

During the past winter, the Arctic Islands Offshore Group acquired over 2000 miles of on-ice reconnaissance seismic coverage in the Sverdrup Basin and together with marine seismic is providing regional evaluation of the offshore holdings of the Company. The program will continue during the winter of 1975-76 and is expected to be completed the following year.

The west coast of Banks Island area has proven in the past to be exceedingly difficult to explore due to the presence of the Arctic ice pack. Seismic data acquired over the permit lands indicate the absence of large structures which would be a prerequisite to further exploration and the acreage has been assigned to another company with Siebens retaining an overriding royalty.

Mackenzie Delta — Beaufort Sea

While hearings are underway on proposals to remove natural gas from the Mackenzie Delta, either in conjunction with gas from Alaska or through an all-Canadian line, exploratory drilling continues in this area with operators utilizing as many as eight drilling rigs this winter in efforts to increase the reserves required to supply the pipeline. Three artificial islands have been built or are under construction in preparation for this winter's drilling program with the balance of drilling carried out on the Delta itself.

Construction of two ice-strengthened drillships and four icebreaking supply ships is continuing, with the operator, Dome Petroleum Ltd., planning to commence drilling operations on two locations in the Beaufort Sea in the summer of 1976. The proposed drillship locations are indicated on the adjoining map of the area with one of the locations immediately north of Permit A2569 held 50% by Siebens. Dome intends to drill 18 offshore locations during the next five years to evaluate the potential of the large structures revealed from seismic surveys. The Company's large royalty holdings in this area are expected to receive some evaluation as a result of this multi-well program. An indication of the rapidly escalating costs of frontier exploration is illustrated by estimates that the two wells to be drilled next year could cost up to $90 million in total. Sea bed studies and installation of protective caissons and conductor pipe were carried out in the summer of 1975 in preparation for the arrival of the drillships in the Beaufort Sea in 1976.

A marine seismic survey on Company working interest lands in the Beaufort Sea was commenced this summer after unsuccessful attempts during the three previous years. Unfortunately, only half the proposed program was completed when the seismic vessel was damaged by pack-ice and had to return to port. The seismic data obtained will be integrated with previous shooting and evaluated to determine if further exploratory work is required.

East Coast

The Labrador Coast was the scene of continued exploration activity as the two principal operators, the Eastcan Group and the BP Group, attempted to maintain the successful results of the previous year. By utilizing the Havdrill drillship, BP et al completed and abandoned the Bonavista C-99 well, suspended in 1974. The second well drilled by that group, Indian Harbour M-52, was suspended several thousand feet short of its projected depth of 12,000 feet and the Operator has not indicated if the well will be re-entered. The Eastcan Group, using the Pelican and Sedco 445 drillships, drilled and abandoned the Freydis and Cartier wells without success and suspended two others, the Karlsefni and Snorri, planning to return next year to complete drilling. Both of the latter wells were reported to have encountered encouraging hydrocarbon shows and extensive testing of the prospective horizons will be conducted next summer.

In terms of positive results, the 1975 drilling season appears discouraging, although the appraisal of such a vast area will take many more than the eleven wells drilled to date.

An infill marine seismic survey was carried out recently on the balance of the Labrador Coast acreage held by the Company and after interpretation of the data, a decision will be made as to future exploration plans.

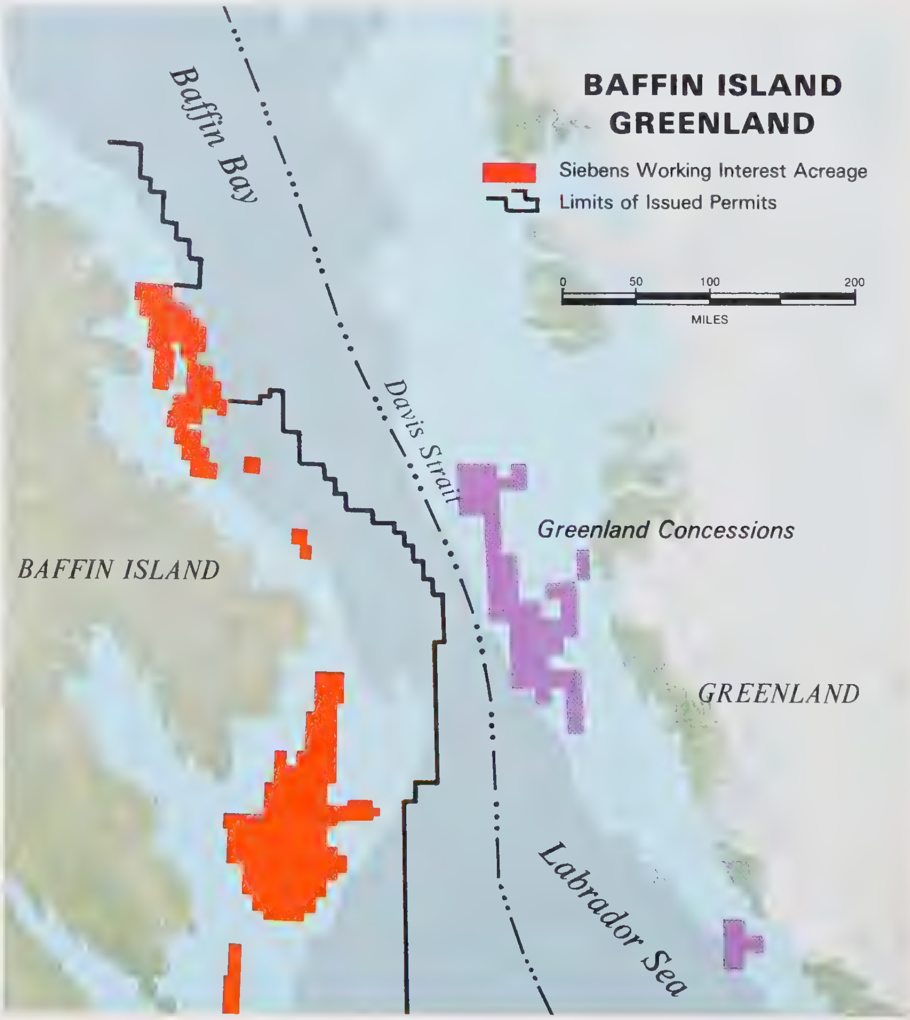
Activity in the Davis Strait should accelerate with the announcement by the Ministry of Greenland in April, 1975 of the awarding of petroleum concessions to six exploration groups. The concessions awarded lie on the continental shelf of Central West Greenland directly across the Davis Strait from the approximately 8-1/2 million gross acres held by Siebens, Canada Cities Service and others.

The Company, with a 47.625% interest in these lands, believes there are a number of significant anomalies present which require evaluation by drilling. The recent announcement of the farmout to a major oil company of lands offsetting the Company's Baffin coast acreage is an indication of industry interest in this area.

Following an intensive program of detailed marine seismic surveys, some of the Greenland operators have indicated exploratory drilling could commence as early as 1976. With the prospects for similar geology to be present on both sides of Davis Strait, Greenland activity will benefit operators on the Canadian side with increased knowledge of the northern part of the basin. Successful exploration off the Greenland coast would revive interest on the Canadian side which will be more difficult to drill due to the iceberg problem.

Athabasca Oil Sands

This past year the Company was approached by Great Canadian Oil Sands Limited regarding a small parcel of land in Bituminous Oil Sands Lease #23 offsetting the GCOS oil sand mining operation and on which Siebens held a 1.6% overriding royalty. As GCOS required the 291 acres to maximize their mining operation and the lands were situated as an isolated pocket which ordinarily would not have been mined by any adjacent project, the decision was made to sell



the royalty in 291 acres to GCOS leaving 36,648 acres in the Lease. For its royalty, the Company negotiated a cash payment of $300,000 and an additional payment of $250,000 to be recovered out of the first production proceeds from the lands expected in 1976.

The monies received from this sale of royalty will recover the majority of the purchase price paid by the Company for the entire overriding royalty on Bituminous Oil Sands Lease #23.

Construction of the Syncrude plant continued with inflation making a serious impact on costs. This project is scheduled for completion in 1979. The Alberta Energy Resources Conservation Board has recommended to the Provincial Government that approval be granted for another development sponsored by Alberta Oil Sands Project, a consortium of companies, to construct a plant to produce 122,500 barrels per day of synthetic crude. However, with the uncertainty of future costs, oil prices, royalties and taxation, this project and others previously granted approval are currently being reassessed by their participants.

The Company also has an overriding royalty of 1.75% on Bituminous Oil Sands Lease #25 containing 49,964 acres and both royalties are considered a significant source of future revenue.

Hudson Bay

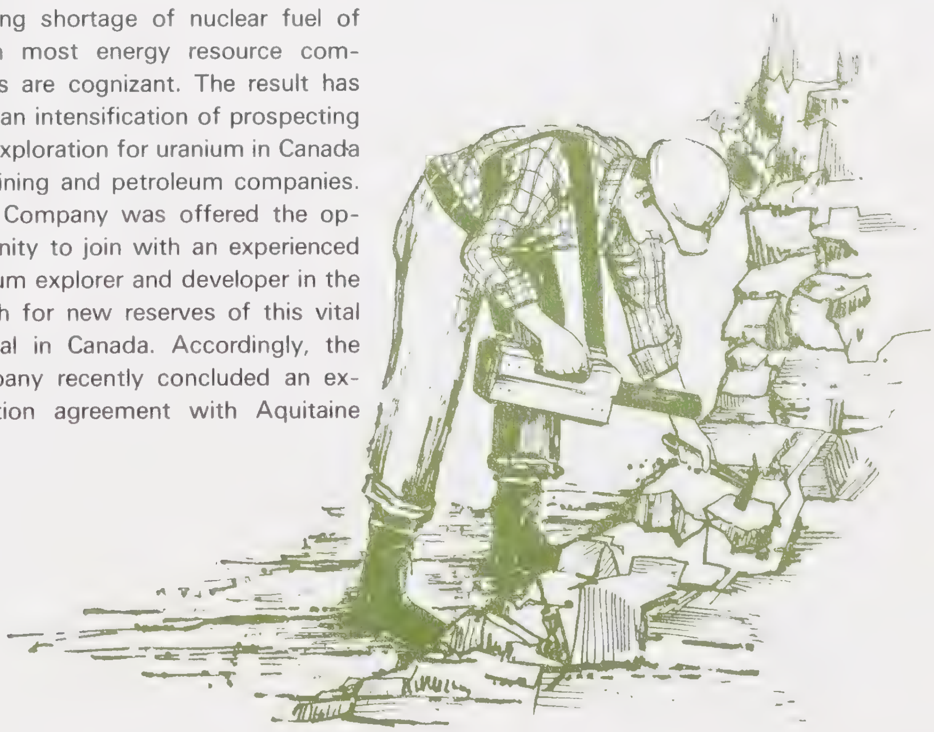
While there was no drilling in Hudson Bay the past year, further reconnaissance marine seismic was conducted on the 4-1/2 million gross acre block of permits in which the Company now holds a 5.83% interest. Shell Canada Ltd. has acquired a 50% interest in this block in return for providing work credits totalling in excess of $1.69 million and 750 miles of marine seismic data shot on or near the Company lands. Utilizing new acquisition and processing techniques, the new seismic data are of good quality and interpretation is now providing details of the large anomalies previously mapped by refraction seismic methods.

Operators have not announced any plans for drilling in Hudson Bay during 1976 and it is unlikely this area will see much activity until at least 1977 or until Federal land regulations are made public.

Mineral Exploration

With forecasts of shortages of conventional energy sources indicated toward the end of this century, there has been a renewal of interest in uranium for power generating plants. Recent increases in the price of uranium and the worldwide proliferation of nuclear generating plants on order or under construction are signs that the demand for uranium is increasing. With perhaps 50% of electrical demands to be contributed by nuclear plants by the year 2000, clearly there is the danger of an impending shortage of nuclear fuel of which most energy resource companies are cognizant. The result has been an intensification of prospecting and exploration for uranium in Canada by mining and petroleum companies. Your Company was offered the opportunity to join with an experienced uranium explorer and developer in the search for new reserves of this vital mineral in Canada. Accordingly, the Company recently concluded an exploration agreement with Aquitaine Company of Canada Ltd., who will act as operator, whereby the joint venture committed to spend a total of $2,250,000 for the purpose of exploring for uranium through the period ending December 31, 1978. Siebens' share of the expenditures will be $1,000,000. In return for providing these exploration funds a 33-1/3% interest in two uranium mining properties was transferred to Siebens and the Company will earn a 33-1/3% interest in the benefits of the joint venture exploration program. Several interesting occurrences of uranium have been found which will require further investigation next year.

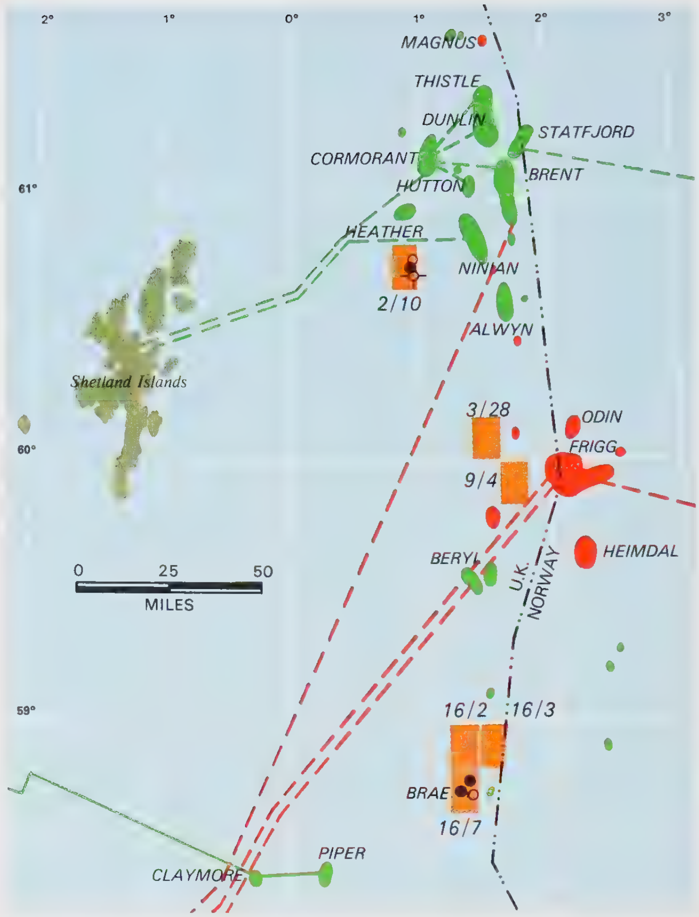
Subsequent to the formation of the joint venture, one of the mining properties was optioned to Eldorado Nuclear Limited which can earn an undivided one third interest in the option lands by expending $500,000 in exploration work consisting initially of diamond drilling. At the time of writing, the results of the drilling program are being reviewed with further exploration being considered for next year.



Foreign Exploration

United Kingdom

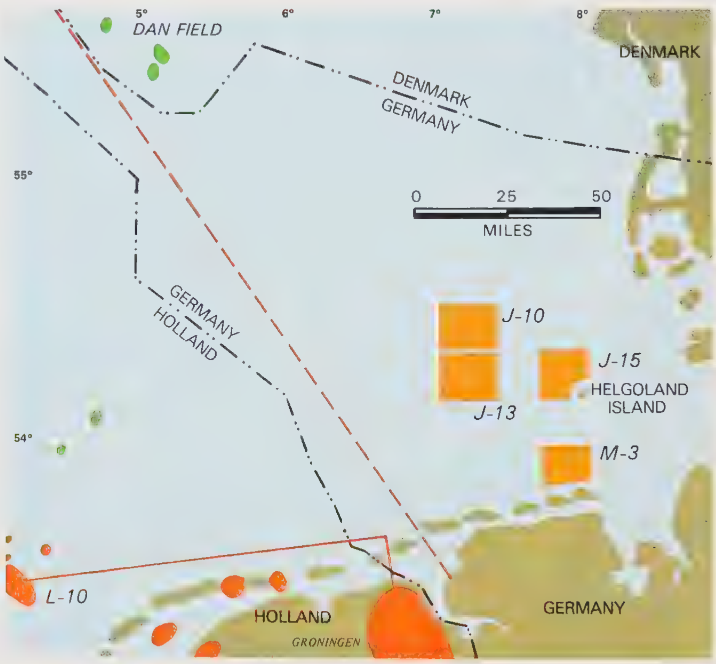
The Company's United Kingdom affiliate, Siebens Oil & Gas (U.K.) Ltd. participated in the drilling of three wells in the U.K. portion of the Northern North Sea last year and is pleased to report that all of the wells have been classified as discoveries. The 2/10-1A well, in which Siebens (U.K.) has a 95% interest, encountered porous oil-bearing sandstone of Middle Jurassic age at a depth of approximately 11,800 feet. From coring and electric log evaluation, a gross oil column thickness of 189 feet was determined, below which was 100% water saturated sandstones. While attempting to deepen the hole to investigate other potential sands in the Middle Jurassic, the drill pipe became stuck and eventually blocked off the hole through the pay section, preventing the running of casing and production testing. However, based on the success of the previous coring and computer-processed electric log evaluation, sufficient evidence had been accumulated to warrant further appraisal wells. The



NORTHERN N. SEA

NORTH SEA

SOUTHERN N. SEA



well was capped and suspended and the semisubmersible rig Pacesetter 1 was released to another operator for one well and subsequently returned to Siebens (U.K.) on September 18, 1975. Siebens (U.K.) will have the use of the rig for three consecutive drilling slots and, at the time of writing, one appraisal well, located 2-1/2 miles southeast of the 2/10-1A discovery, has been drilled and abandoned. A second appraisal well commenced drilling in December, 1975, 1-1/2 miles northeast of the discovery. The third slot will be utilized for further appraisal or exploratory drilling in either Block 2/10 or 3/28.

In May, 1975, Pan Ocean Oil (U.K.) Ltd., operator for a group in which Siebens (U.K.) is a partner, completed testing of its discovery well in Block 16/7 and announced it would be named the Brae Field. Over 500 feet of continuous gross pay interval was encountered at a depth of approximately 12,000 feet in sandstones of Upper Jurassic age. Subsequent flow tests from seven selected intervals gave a combined stabilized flow rate in excess of 22,000 barrels of oil per day through restricted chokes indicating the open hole potential would be even higher than this figure. Oil gravity varied from 35° API to 46° API with corresponding gas/oil ratios from 3,000 to 7,000 cubic feet per barrel. These encouraging results indicated that at least two appraisal wells will be required to assess the full extent and commercial potential of the field.

Later in the summer of 1975, a second well was drilled by the Pan Ocean group on a separate structure in Block 16/7. The well, 16/7-2, tested gas from an upper zone at a depth of approximately 5,500 feet and flowed 23° API gravity oil at a rate of 4,000 barrels per day from a lower zone at about 5,700 feet. The producing horizons were identified as Tertiary Eocene sandstones and several other anomalies of this age will require evaluation by drilling. It is expected production from this field could be tied into facilities in the nearby Brae Field.

In mid September, 1975, Pan Ocean commenced the first appraisal well to the Brae discovery. Located a few miles southwest of the initial well, 16/7-3 is programmed to be drilled to evaluate the extent and potential of the Upper Jurassic pay horizon.

After the announcement by Pan Ocean of the commerciality of the Brae Field, the National Coal Board elected to become a 20% interest partner in Production Licence P. 108, thereby reducing Siebens (U.K.)'s interest to 8% in Blocks 16/3 and 16/7.

In order to provide funds for the drilling of the appraisal wells required to assess the potential of the above discoveries and for futher exploration, Siebens Oil & Gas (U.K.) Ltd. announced a rights issue in May, 1975. Approximately $20.0 million was raised with Siebens Canada undertaking to subscribe for its full allotment of new shares as well as taking up additional shares to increase its holdings in Siebens (U.K.) from 27.23% to 31.7%. The investment in Siebens (U.K.) amounted to approximately $8.6 million and was provided from present working capital and future cash flow.

The drilling of the 2/10-1A well has satisfied the work obligations pertaining to Production Licence P. 234 which includes Block 3/28. Exploratory drilling of this block has been deferred until completion of delineation drilling in Block 2/10. Assessment of Block 9/4, which is held as to 47-1/2% by Siebens (U.K.), is continuing with several critical wells being drilled nearby.

Production Licence P. 157, covering Blocks 92/10 and 103/28 in the Celtic Sea, west of Cornwall, was surrendered to the U.K. Department of Energy in July after evaluation of detailed marine seismic surveys indicated there were no structural features within the blocks considered worth drilling.

The U.K. Department of Energy will likely offer a new round of Production Licences during 1976. Siebens (U.K.) will assess the geologic merit of the blocks when they are offered as well as considering conditions which may be announced, prior to deciding whether to apply for any of the Licences.

Ireland

In the spring of 1975, the Irish Government awarded a number of blocks located in the southwest Celtic Sea to companies with whom it had been negotiating privately. Other blocks offered for application were geologically unattractive and in addition, terms proposed by the Government were so onerous as to preclude consideration by Hibernian Oil & Gas Ltd., an 80% owned subsidiary of Siebens Oil & Gas (U.K.) Ltd.

German North Sea

In February, 1975, an agreement was concluded with Mobil Oil AG in Deutschland whereby Mobil may earn an undivided 22-1/2% interest in Blocks J13 and J15 in the German North Sea by reimbursing certain prior costs and paying Siebens (U.K.)'s 45% share of the cost of two exploratory wells to be drilled commencing in 1976. A well scheduled to test the Rotliegendes will be drilled in Block J13 while a Zechstein test will be drilled in either Block J15 or J13. Mobil also has an option, subject to similar obligations, to earn a 22-1/2% interest in Block J10. Prior to the above wells being commenced, a joint anomaly extending into Siebens (U.K.)'s Block M3 will be evaluated by another company. A Rig Sharing

Agreement for the Penrod 65 jackup rig has been executed by all parties with the rig presently drilling in Dutch waters.

South Yemen

During July, 1975, the Company concluded negotiations with the Petroleum and Minerals Board of the Peoples Democratic Republic of Yemen for a Production Sharing Agreement covering a portion of the Island of Socotra and the adjacent offshore continental shelf. Socotra is situated approximately 150 miles off the northeast coast of Africa and south of the Arabian Peninsula and the Gulf of Aden. The agreement covers an area of 17,533 square kilometers or approximately 4,338,000 acres, most of which is covered by less than 600 feet of water. Preliminary geological investigation suggests this area was once attached to the Arabian coastline prior to the rifting of the Gulf of Aden.

This portion of the Arabian Peninsula is relatively unexplored for petroleum but holds promise, particularly in the offshore portion, due to the presence of Cretaceous and older sediments which are productive in the Arabian Gulf.

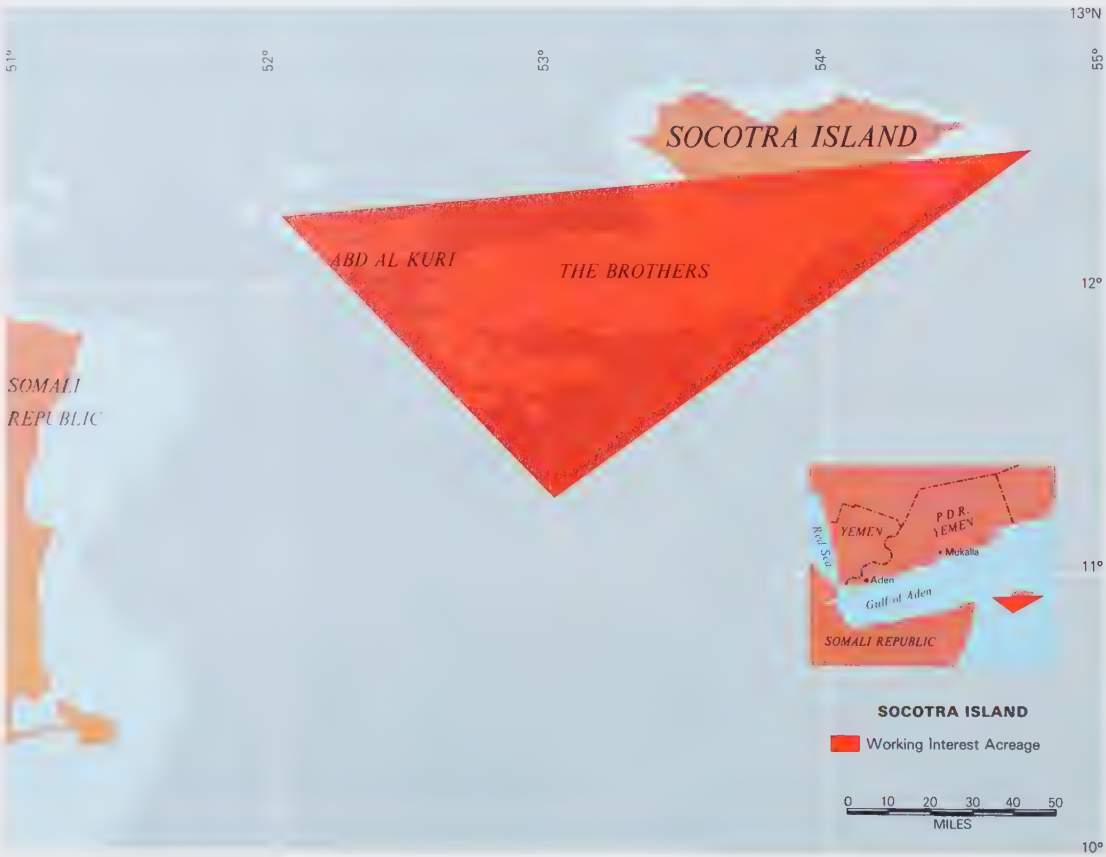
The term of the exploration phase is six years commencing with aeromagnetic and marine seismic surveys during the first two year period. If positive results are obtained from the geophysical surveys, drilling of the first exploratory well must commence before the end of the third year followed by a second well before the end of the sixth year. Total cost during the six year period could amount to U.S. $14.5 million.

Under the terms of the Production Sharing Agreement, exploration, development and operating costs will be recovered from forty percent of production while the Company will receive 25% of the remaining sixty percent of production up to a level of 150,000 barrels per day, declining to 15% over 350,000 barrels per day.

The aeromagnetic survey has been completed and will be followed immediately by the reconnaissance phase of the marine seismic program.

South Viet Nam

With the fall of the former government regime of South Viet Nam in early 1975, offshore exploration in the South China Sea immediately ceased. Consequently, the South Viet Nam Joint Venture Group, of which the Company is a 25% participant, was compelled to cancel its plans for a multi-well drilling program on Blocks 21 and 22 located offshore Viet Nam. Subsequently, the Provisional Revolutionary Government announced the cancellation of petroleum concessions granted by the former government but



stated their interest in discussing new agreements with former concession holders. The SVNJV has recently attended meetings with representatives of the Democratic Republic of Viet Nam in Hanoi who are the authoritative voice of reunified North and South Viet Nam. The discussions were particularly encouraging and the SVN-JV, being basically a Canadian group, is confident that a new agreement with mutually acceptable terms can be concluded.

Abu Dhabi

After the evaluation of the 1,500 line miles of marine seismic obtained over the two concession areas located in Abu Dhabi waters in the Arabian Gulf, the Company elected to relinquish its 20% interest in the lands due to the lack of drillable structures.

Ethiopia

The 8-1/2 million acre concession held as to 12-1/2% by the Company was surrendered back to the Government of Ethiopia early last year after gravity and regional geologic studies indicated the area to be nonprospective for hydrocarbon accumulation.

Foreign Land Holdings

Location	Type of Ownership	Gross Acres	Net Acres
Germany (1)	Exploration Permits	354,199	159,390
Italy	Exploration Permit	38,876	3,887
Malta	Production Licence	319,358	67,864
Netherlands (1)	Exploration Licence	31,876	3,188
United Kingdom (1)	Production Licences	366,801	183,079
United States of America (2)			
Alaska	Petroleum Leases	22,125	11,062
Montana, North Dakota	Petroleum Leases	169,600	42,400
Viet Nam (3)	Exploration Concessions	3,396,389	849,097
Yemen	Production Sharing Agreement	4,337,796	4,337,796
		9,037,020	5,657,763

(1) Represents acreage held by Siebens (U.K.). Siebens Canada holds 31.7% of the issued and outstanding shares of Siebens (U.K.).

(2) The Company also has priority rights on 118,097 net acres under dispute between the U.S. Federal Government and the State of Alaska relating to Native Claims. The Company holds Royalty Interest in 20,248 acres located on the North Slope of Alaska and has priority applications on 311,890 gross acres (49,902 net acres) of U.S. Geothermal leases located in the Western United States.

(3) Concession terms being renegotiated.

United States of America

South Williston Basin

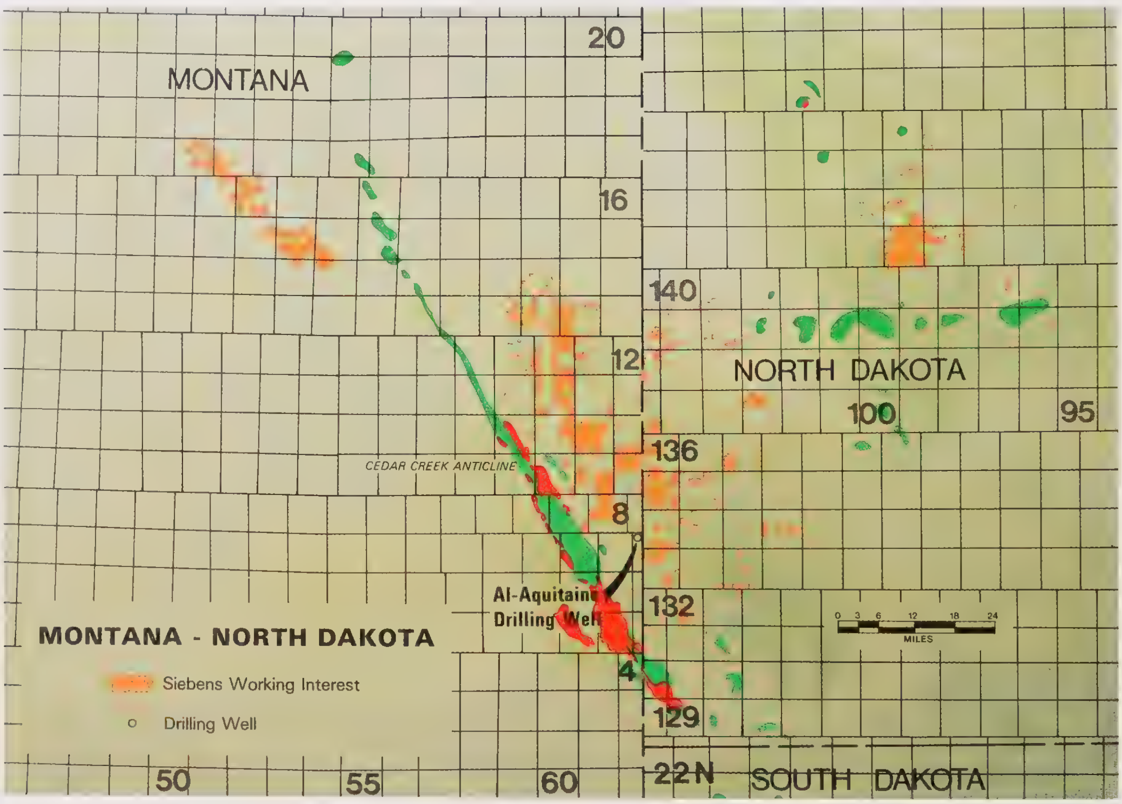
A 50 mile seismic program was completed last winter in the Fallon County area of Montana, located east of the Cedar Creek Anticline oil and gas pools. The Company holds a 25% interest in approximately 170,000 gross acres located in this portion of the Williston Basin. The objective of the seismic survey was to locate structural leads in the Ordovician Red River formation which is productive in this area. Oil migration in the Paleozoic reservoirs of the Cedar Creek Anticline was from the northeast, out of the centre of the Williston Basin and any structural or stratigraphic traps located downdip from this major feature can be assumed to have trapped hydrocarbons. Further velocity and seismic data are being acquired and it is expected drilling will commence in 1976. The Company is supporting the drilling of a 9500 foot test well in T. 7N, R61E, Fallon County, by optioning offsetting lands to the operator, Al-Aquitaine Exploration Ltd.

Geothermal Resources

In line with the Company's policy of exploring for alternate energy sources, applications were made with the U.S. Bureau of Land Management early in 1974 for Geothermal Leases in five Western States. Lands which were not geologically attractive after on-the-ground inspections were dropped by withdrawing the application. The Canadian group in which Siebens is a 16% interest holder now has applications pending issuances of leases on approximately 312,000 gross acres.

Due to the restrictive nature of the U.S. geothermal leasing regulations and the requirement for environmental impact analysis of each lease, the Bureau has been able to process only a small proportion of the applications and issue leases. In addition, tax incentives available to oil and gas producers do not apply to geothermal developers resulting in a slow down of exploratory drilling for steam resources. These and other regulations tend to discourage initiative and clearly, the original intent of the Geothermal Act has been lost. However, discussions have commenced with a group of utility companies regarding a joint venture to continue exploration on the geothermal group's lands. In addition, detailed geological mapping of the most attractive geothermal areas under application continued this past summer in preparation for geophysical investigation.

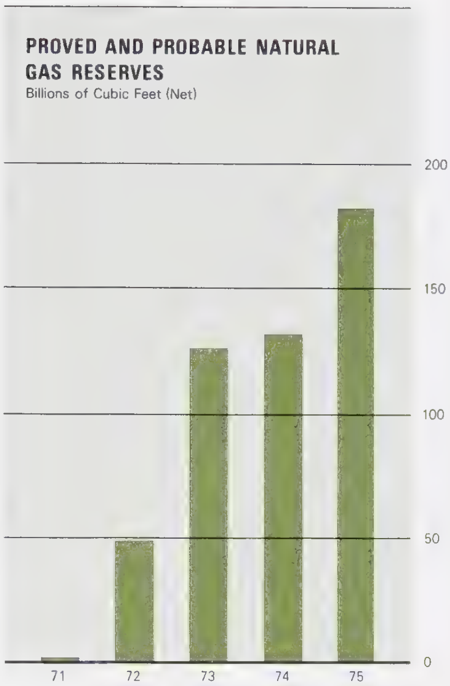
Your Company will continue to support the geothermal program in view of the U.S. Government's stated goal of having geothermal energy supplying up to 40,000 megawatts of electricity by 1985.

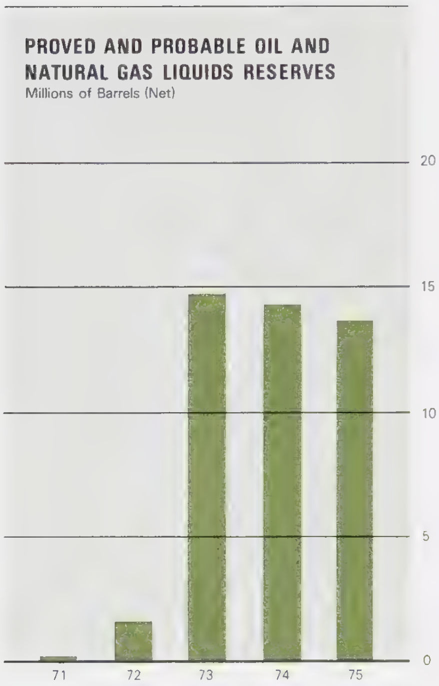


Reserves

The Company's remaining net recoverable reserves at year end as estimated by McDaniel Consultants (1965) Ltd. are shown on the accompanying table. Additions to natural gas reserves exceeded withdrawals while newly discovered crude oil and natural gas liquids reserves did not replace production. Estimated tar sands reserves of 38,800,000 bbls. which are recoverable by surface mining are not included in the table. There is also no provision made for North Sea reserves since field delineation wells are presently being drilled on the blocks in which the Company has interests.

Natural gas reserves increased by 38% to 182 billion cubic feet. Total net proven and probable reserves of crude oil and natural gas liquids at year end were 13,700,000 bbls. This is a decline of 700,000 barrels or 5%. The Company's net equivalent reserves are 36,565,000 bbls. including both proven and probable categories. This equivalent was calculated by converting gas at one barrel of oil equal to eight thousand cubic feet of gas and three barrels of oil per long ton of sulphur. A comparison with last year's equivalent reserves calculated on the same basis shows an increase of 18%.

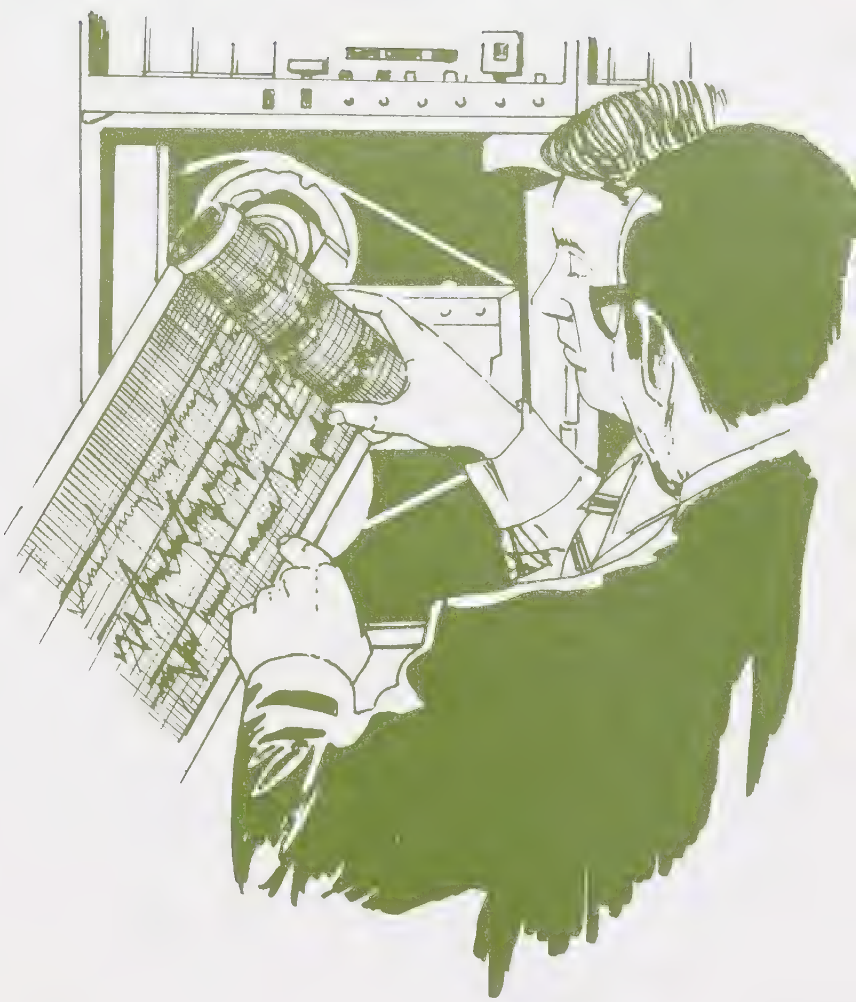




Net Reserves of Oil, Natural Gas and Natural Gas Liquids and Sulphur

October 31, 1975

	Proven	Probable	Total
Crude Oil (Barrels)	7,941,900	4,494,400	12,436,300
Natural Gas Liquids (Barrels)	1,247,100	65,300	1,312,400
Natural Gas (Millions of Cubic Feet)	130,350	51,160	181,510
Sulphur (Long Tons)	35,800	6,700	42,500



Production

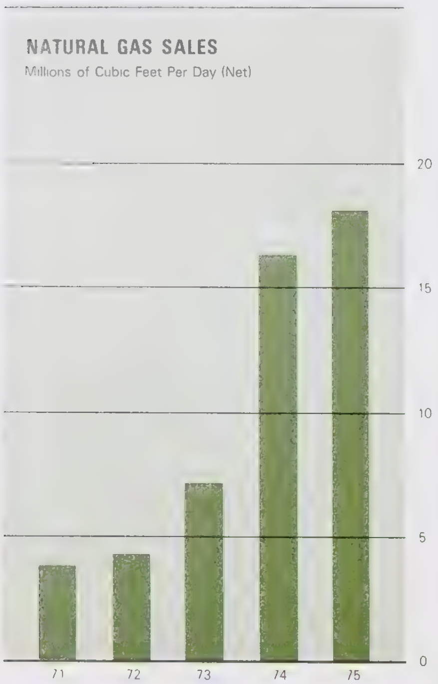
Natural Gas

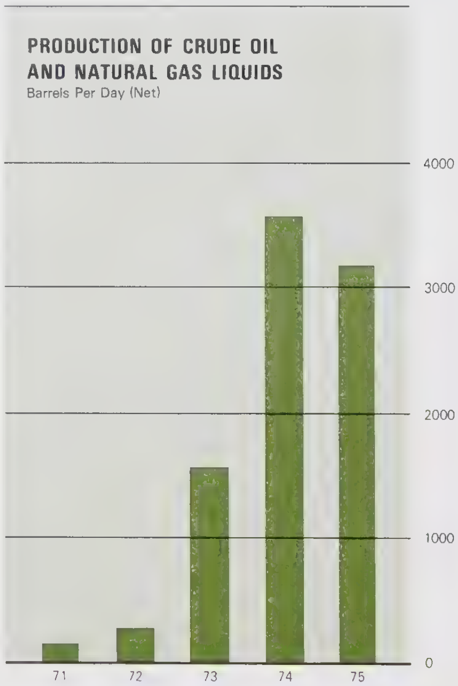
Natural gas production for the year was 6.6 billion cubic feet, an average of 18.1 million cubic feet (MMCF) per day. This is an 11% increase over last year and does not indicate the effect of new plants going on stream this fall. A loss of approximately 1 MMCF per day was caused by operational problems at a new gas plant in the Braeburn area of Alberta. The Company has a 50% interest in this plant which is currently producing 5 MMCF per day. The Company's net production at the present time is approximately 20 MMCF per day.

During the next six months, new plants in which the Company has an interest will be going on production at Sylvan Lake, Gilby, Athabasca and Matziwin. Siebens' share of this production, net after royalty, will be approximately 5 MMCF per day. In addition, it is expected that lands drilled at Connorsville, Ferrybank, Medicine Hat and Jenner will come on stream by the summer of 1976 and add another 4 MMCF per day to Siebens' net production. It is anticipated that total net production by the fall of 1976 will exceed 30 MMCF per day.

The Company is negotiating new gas contracts in the Tower and Wandering River areas of northeast Alberta. As many as six field delineation wells will be drilled on these lands this winter and go on stream in 1977. Siebens' net share of production from Tower and Wandering River should approximate 3 MMCF per day.

The average wellhead price of the working interest gas sold by the Company during the year was 40c per thousand cubic feet. All old gas contracts have been renegotiated and Siebens will be receiving in excess of 90c starting November 1, 1975. Additional price increases will be necessary in future years if the differential in the commodity value of natural gas and crude oil on an energy equivalent basis is to be eliminated.





Crude Oil and Gas Liquids

Net production of crude oil and gas liquids for the year ending October 31, 1975 totalled 1,153,400 barrels, an average of 3160 barrels per day. This 11 percent decrease in production was due mainly to the restriction of oil exports by the Federal Government during 1975 with most of this decrease occurring in southwestern Saskatchewan.

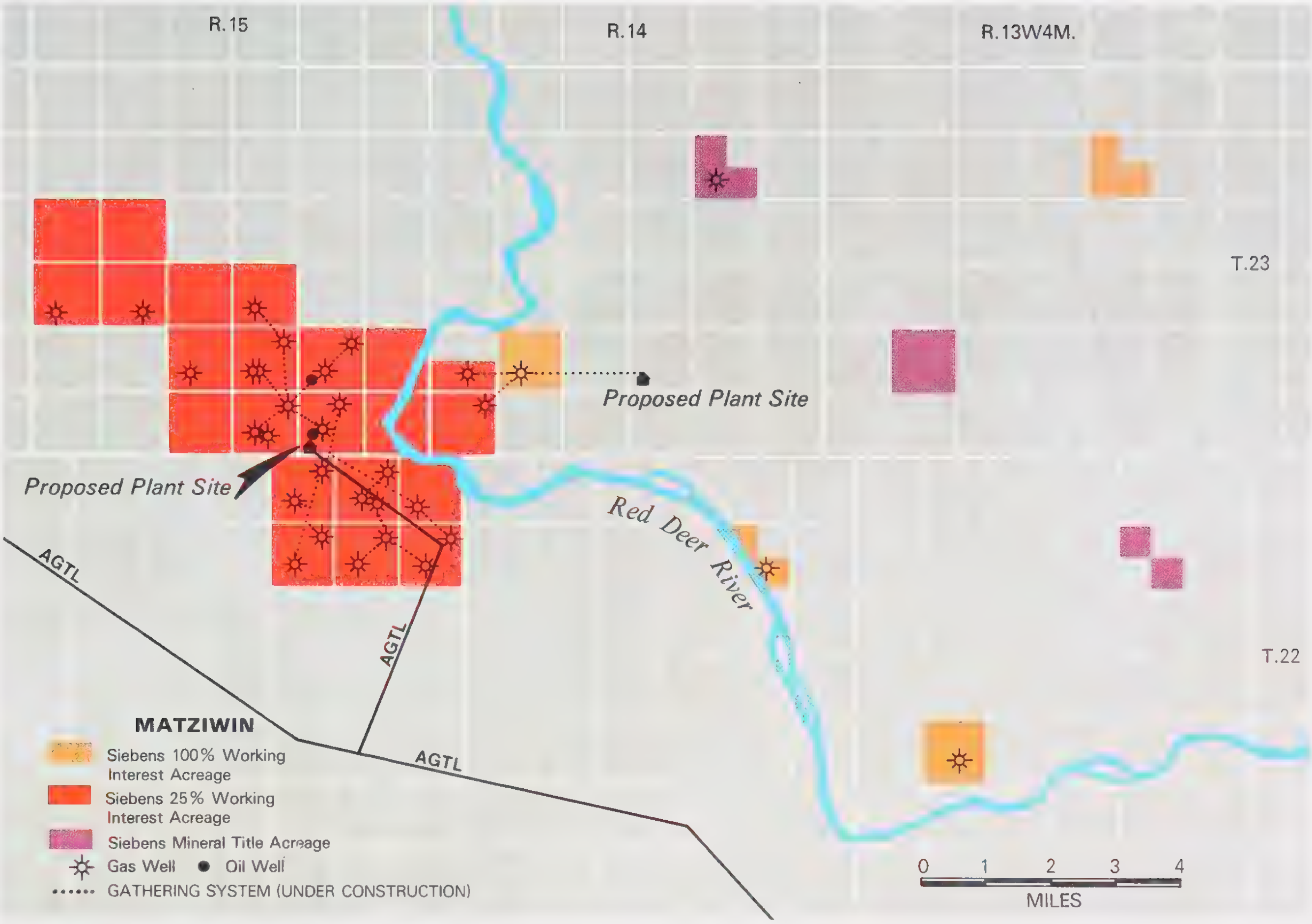
Production at the present time is approximately 3000 barrels per day and wells now on stream will be able to maintain this rate for the coming year. Royalty production still accounts for a substantial 92% of the Company's oil and natural gas liquids production. This is significant as income from royalty production is not affected by operating costs and the entire increase in product prices flows directly to the Company.

During the 1975 fiscal year, the Company drilled and put on production new oil wells in Snipe Lake, Ferrier and Caroline. Additional drilling is planned for these areas during the coming year and net production could increase significantly as new wells are put on stream.

Matziwin-Verger

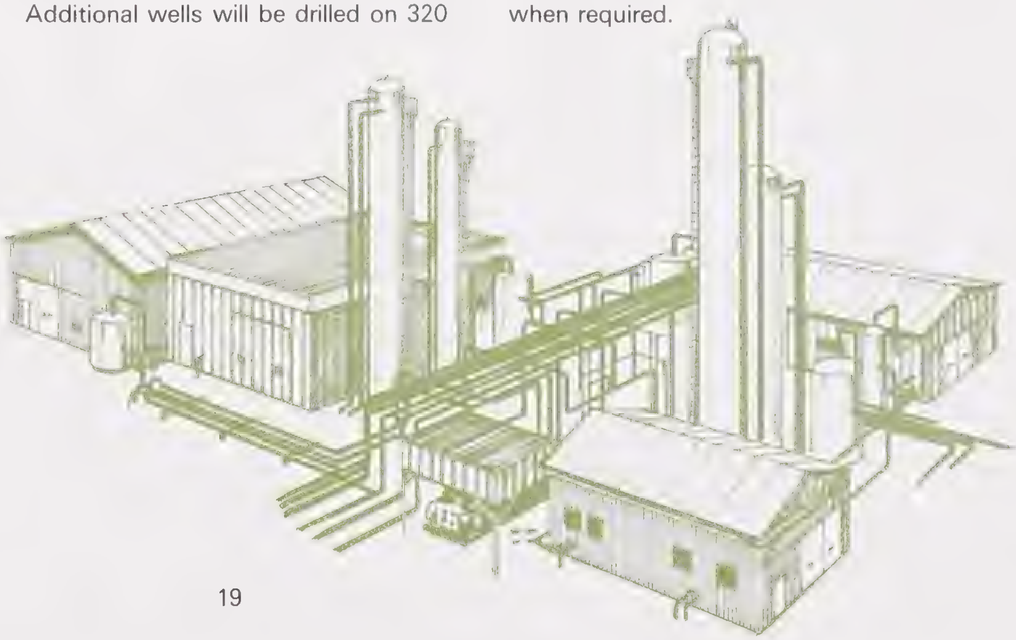
The Company is operator of and has a 25% working interest in a 22 well development program in the Verger-Matziwin area of southeastern Alberta. The drilling program was started in October, 1975 and was completed in mid-November.

There are now 23 wells completed in the Medicine Hat zone which is up to 30 feet thick and has indications of excellent productivity for this area. These wells also contain a Milk River section of average quality which will be completed as the Medicine Hat zone productivity declines.



In addition to the shallow Medicine Hat and Milk River wells, there are four deeper gas wells and two oil wells on this acreage. Two are completed in the Basal Quartz zone, one in the Basal Colorado and the other is a dual producer from both zones. The two oil wells are completed in the Basal Quartz zone which is oil bearing on the east side of the field. Two of the wells in the development program were drilled to the Mississippian in order to test the potential of the deeper horizons and both were successfully completed.

Compressor stations are presently under construction on the east and west side of the Red Deer River and start up of these facilities will commence in early 1976. Initial gross production from the total area is expected to be 6 MMCF per day with 4 MMCF per day from the shallow zones and 2 MMCF per day from the deep zones. Additional wells will be drilled on 320 acre spacing to maintain the production rate at this level for as many years as possible. As mentioned above, the Milk River zone will be completed when required.



Financial Review

Financial results for the past year reflect the continued growth of the Company with respectable increases in revenues, cash flow and net earnings.

Gross revenues increased 33% to $11,548,000, the result of new production and increased product prices. Corresponding cash flow increased 24% to $9,582,000 or $1.04 per share. In turn, net earnings recorded a 40% increase to $5,553,000 or 60 cents per share, up from the $3,953,000 or 43 cents per share of the previous year.

As during previous years, costs incurred on a number of foreign projects were written off to earnings when exploration efforts determined these projects unattractive for further exploration and the licenses or concessions were surrendered. The write-off amounted to $1,645,000 resulting in a significant increase in the provision for amortization and depletion for the year and reduced net earnings accordingly. The Company's policies concerning depletion and amortization of foreign exploration costs are outlined in Note 1 (b) to the financial statements.

The rate for depleting North American exploration and development costs declined modestly from the previous year, reflecting the increase in hydrocarbon reserves relative to the expenditures incurred during the year on which the rate is based.

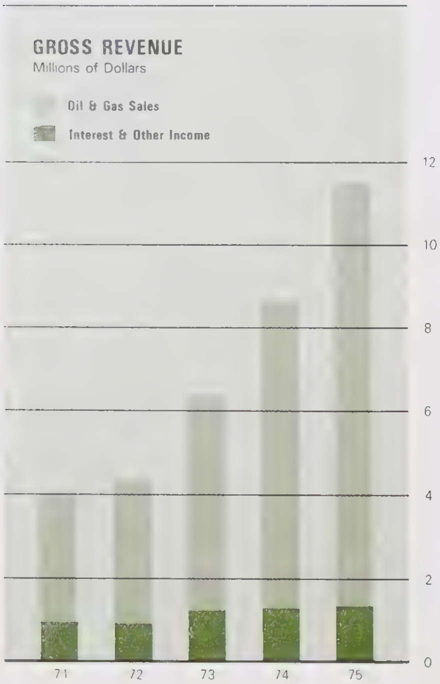
Current income taxes in the amount of $834,000 were incurred during the past year even though the Company continued its exploration and development programs, reflecting the harsh treatment accorded the oil and gas industry by Federal and Provincial levels of government over the past two years. Amendments to the Income Tax Act introduced in the June, 1975, Federal budget to take effect on January 1, 1976, will assist in partially offsetting this unjustified treatment and effectively lower income taxes during the next year.

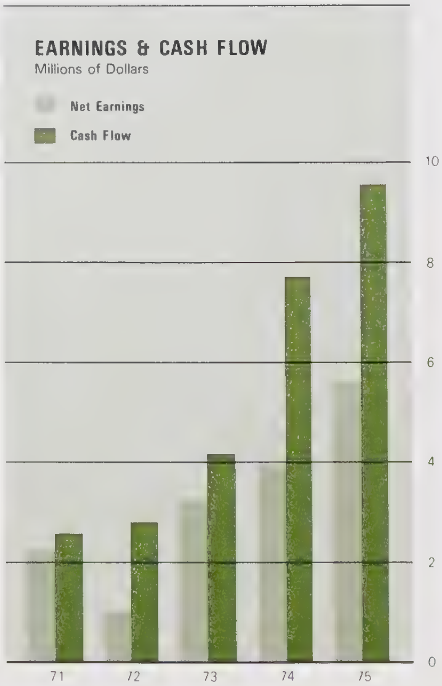
Sources of funds for the year amounted to $11,808,000, an increase of 51%. However, funds applied totalled $19,295,000 representing expenditures of $9,260,000 for additions to Property, Plant and Equipment and $10,009,000 primarily for additional investment in Siebens Oil & Gas (U.K.) Limited. This necessitated liquidation of most of the Company's investments of surplus cash and reduced working capital from $6,180,000 to a deficit of $1,306,000.

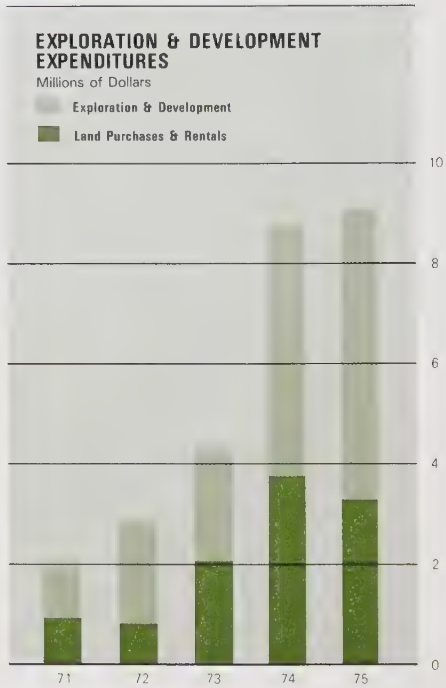
To offset this significant reduction in working capital, the Company negotiated with its bankers a $20,000,000 line of credit secured by a pledge of certain producing properties and a Floating Charge Debenture.

At October 31, 1975, shareholders' equity totalled $27,806,000. On that date, there were 9,185,000 common shares outstanding. On a geographic basis, 95% of the voting control on the common shares was held or controlled by Canadians.

Exploration and development expenditures amounted to $9,230,000 and represented $3,262,000 spent on land







acquisitions and rentals, and $5,968,000 on drilling, development and other exploration costs.

In May, 1975, Siebens (U.K.) announced a rights offering whereby approximately $20 million was raised for use in appraisal and exploration programs in the North Sea. At a cost of $8,600,000 the Company subscribed for its full allotment of new shares and further subscribed for additional shares so that its holdings in Siebens (U.K.) were increased from 27.23% to 31.7%.

In keeping with the Company's policy of keeping its shareholders fully informed of not only past developments, but also future expectations, we estimate that for the year ending October 31, 1976, gross revenues will increase dramatically to approximately $20 million, cash flow to $16.6 million and net earnings to $12 million. As in the past, exploration and development expenditures will approximate cash flow.

Financial Statements

Consolidated Balance Sheet

Consolidated Statement of Earnings and Retained Earnings

Consolidated Statement of Changes in Financial Position

Auditors' Report

Notes to 1975 Consolidated Financial Statements

Consolidated Balance Sheet

As at October 31, 1975

Assets

	1975	1974
CURRENT ASSETS		
Cash	$ 81,525	$ 87,735
Marketable securities, at cost (quoted market value 1975 — $2,455,000; 1974 — $5,948,500)	2,421,807	6,198,444
Accounts receivable	1,607,626	837,164
Accrued interest	19,957	192,353
	4,130,915	7,315,696
INVESTMENTS (note 2)	13,154,042	4,948,354
PROPERTY, PLANT AND EQUIPMENT		
Petroleum and natural gas leases and rights, together with exploration, development and equipment thereon, at cost (note 1)	23,494,363	16,387,901
Accumulated depletion and depreciation	2,913,413	1,811,442
	20,580,950	14,576,459
Other equipment, at cost less accumulated depreciation 1975 — $73,028; 1974 — $65,693	67,472	58,846
	20,648,422	14,635,305
OTHER ASSETS	51,836	26,956
	$37,985,215	$26,926,311

Approved by the Board:

Wm. W. Siebens Director

[illegible] Director

Liabilities

	1975	1974
CURRENT LIABILITIES		
Bank indebtedness, secured	$ 2,468,281	$ —
Accounts payable and accrued liabilities	2,056,538	1,042,318
Income taxes	829,000	—
Deferred income	83,213	93,200
	5,437,032	1,135,518
GAS PRODUCTION PREPAYMENT	47,106	47,106
DEFERRED INCOME TAXES (note 1)	4,695,429	3,491,000
CONTINGENT LIABILITIES (note 3)		

Shareholders' Equity

CAPITAL STOCK (note 4)		
Authorized		
12,000,000 shares without nominal or par value		
Issued		
9,185,065 (1974 — 9,184,700) shares	13,512,765	13,512,765
CONTRIBUTED SURPLUS	3,447,651	3,447,651
RETAINED EARNINGS	10,845,232	5,292,271
	27,805,648	22,252,687
	$37,985,215	$26,926,311

Consolidated Statement of Earnings and Retained Earnings

Year Ended October 31, 1975

	1975	1974
REVENUE		
Oil and gas	$10,190,433	$7,381,573
Interest	770,553	988,289
Other	586,995	313,372
	11,547,981	8,683,234
EXPENSES		
Production expenses	453,759	248,144
General and administrative	412,129	366,564
Interest	120,726	—
Depletion and amortization (note 1)	2,778,387	1,022,130
Depreciation	191,238	87,754
	3,956,239	1,724,592
NET EARNINGS BEFORE INCOME TAXES	7,591,742	6,958,642
INCOME TAXES (note 1)		
Current	834,352	176,077
Deferred	1,204,429	2,830,000
	2,038,781	3,006,077
NET EARNINGS	5,552,961	3,952,565
Retained earnings at beginning of year	5,292,271	1,339,706
RETAINED EARNINGS AT END OF YEAR	$10,845,232	$5,292,271
NET EARNINGS PER SHARE	$.60	$.43

Consolidated Statement of Changes in Financial Position

Year Ended October 31, 1975

	1975	1974
SOURCE OF FUNDS		
From operations	$ 9,581,549	$7,739,590
Reclassification of investment to marketable securities	1,747,990	—
Sale of petroleum and natural gas rights	478,904	—
Sale of common shares	—	75,755
	11,808,443	7,815,345
APPLICATION OF FUNDS		
Investments	10,009,383	1,153,674
Property, plant and equipment	9,260,475	8,750,336
Other	24,880	(14,511)
	19,294,738	9,889,499
DECREASE IN WORKING CAPITAL	$ 7,486,295	$2,074,154

Auditors' Report

To the Shareholders of
Siebens Oil & Gas Ltd.

We have examined the consolidated balance sheet of Siebens Oil & Gas Ltd. and its subsidiaries as at October 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
December 16, 1975

(Signed) Thorne Riddell & Co.
Chartered Accountants

Notes to Consolidated Financial Statements

Year Ended October 31, 1975

1. ACCOUNTING POLICIES

a) Principles of Consolidation

The consolidated financial statements include the accounts of Siebens Oil & Gas Ltd. (the Company) and its wholly-owned subsidiaries, Siebens Oil & Minerals, Inc., Siebens Oil & Gas (Malta) Limited, Siebens Oil & Gas (Vietnam) Ltd. and Siebens Oil & Gas (S.E. Asia) Ltd.

See note 2 with respect to the Company's investment in Siebens Oil & Gas (U.K.) Limited (Siebens (U.K.)).

b) Petroleum and Natural Gas Operations

The Company follows the "full cost" method of accounting for its petroleum and natural gas operations. Under this method all costs of exploring for and developing oil and gas reserves are capitalized and charged to income as set out below.

(i) Costs incurred in North America are being depleted using the unit of production method based on estimated recoverable North American reserves as determined by Company engineers.

(ii) Prior to May 31, 1975, costs incurred by Siebens (U.K.) in the North Sea area (see note 2) were being amortized on a straightline basis at the rate of 10% per annum; at that date, exploration in the North Sea was determined to have been successful and, accordingly, the unamortized portion of North Sea costs will be depleted using the unit of production method based on estimated recoverable reserves in the North Sea.

(iii) The costs of exploration in other foreign areas will be depleted on the basis of oil and gas reserves as and when discovered or written-off to income if exploration in any area is determined to be unsuccessful.

c) Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming capital cost allowances and exploration and development costs in excess of the depreciation and depletion provisions reflected in its accounts.

d) Foreign Currencies

The accounts of foreign subsidiaries are converted to Canadian dollars on the following bases:

(i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.

(ii) Fixed assets, at the average rate of exchange for the years in which the respective assets were acquired.

(iii) Revenue and expenses (excluding depletion and amortization which are converted at the same rates as the related assets), at the average rate of exchange for the year.

The gain on conversion has been credited to earnings.

2. INVESTMENTS

		1975	1974
Siebens Oil & Gas (U.K.) Limited	— Investment	$12,208,329	$3,794,680
	— Account receivable	945,713	—
Other, at cost		—	1,153,674
		$13,154,042	$4,948,354

The Company follows the equity method of accounting for its investment in Siebens (U.K.) in which the Company has a 31.7% interest. Under this method, the Company's investment is carried on the balance sheet at cost plus its share of net increases or decreases in the shareholders' equity accounts of Siebens (U.K.). The Company's share of the income and expenses of Siebens (U.K.) have been included in the Company's consolidated statement of earnings on an item-by-item basis.

During the year, Siebens (U.K.) issued 3,000,000 shares of its capital stock of which 1,219,637 shares were purchased by the Company thereby increasing its interest in Siebens (U.K.) from 27.23% to 31.7%. The excess of the cost of the shares of Siebens (U.K.) over the underlying book value of its net assets has been allocated to petroleum and natural gas rights and will be amortized on the same basis as the related assets (see note 1).

3. CONTINGENT LIABILITIES AND COMMITMENTS

As of October 31, 1975, the Company was contingently liable under non-interest bearing demand notes and letters of credit aggregating approximately $2.5 million as security for the performance of work obligations in respect of exploration activities.

4. CAPITAL STOCK

a) During the year, the Company issued 365 shares on exercise of stock options. These options were exercised as "market growth" options and, accordingly, the Company received no cash consideration.

b) 249,635 shares of the Company are reserved under a key employee incentive share option plan dated July 16, 1974, of which options on 143,340 shares are outstanding at October 31, 1975 exercisable as "market growth" options in annual instalments to October, 1981 at prices ranging from $5.04 to $8.78 per share.

5. STATUTORY INFORMATION

Directors and senior officers (including the five highest paid employees) of the Company received remuneration amounting to $267,557 during the year ended October 31, 1975.

Five Year Summary

	1975	1974	1973*	1972	1971
Financial (thousands of dollars except per share amounts)					
Revenues					
Oil & Gas Sales	10,190	7,382	5,172	3,408	3,098
Interest Income	771	988	1,147	815	846
Other Income	587	313	64	105	93
Total	11,548	8,683	6,383	4,328	4,037
Cash Expenses					
Production	454	248	226	162	95
General & Administration	412	366	435	267	276
Interest Expense	121	—	—	—	—
Income Taxes	834	176	1,417	1,077	1,043
Total	1,821	790	2,078	1,506	1,414
Other Expenses					
Depletion & Amortization	2,778	1,022	458	1,977	170
Depreciation	191	88	69	29	25
Deferred Taxes	1,205	2,830	533	(186)	216
Total	4,174	3,940	1,060	1,820	411
Net Earnings	5,553	3,953	3,244	1,002	2,212
Per Share	.60	.43	.36	.11	.24
Cash Flow	9,582	7,740	4,185	2,821	2,623
Per Share	1.04	.84	.46	.31	.30
Balance Sheet Data					
Working Capital	(1,306)	6,180	8,254	9,566	8,964
Investments	13,154	4,948	3,802	270	274
Property, Plant & Equipment — Net	20,648	14,635	6,835	3,148	3,756
Deferred Income Taxes	4,695	3,491	661	128	314
Shareholders' Equity	27,806	22,253	18,224	12,868	12,633
Other Data					
Shares Outstanding (thousands of shares)	9,185	9,185	9,172	9,056	9,051
Number of Shareholders	1,597	1,539	1,430	1,306	1,316
Exploration & Development Expenditures					
Land Acquisition & Rentals	3,262	3,774	2,020	819	899
Geological & Geophysical	586	1,150	285	133	511
Dry Holes	1,067	2,215	348	1,302	256
Productive Drilling	3,306	1,260	612	421	172
Production Equipment	1,009	320	219	146	150
Capital Assets of Acquired Companies	—	—	825	—	—
Total	9,230	8,719	4,309	2,821	1,988

	1975	1974	1973*	1972	1971
Changes in Financial Position					
Source of Funds					
Operations	9,582	7,740	4,185	2,821	2,623
Sale of P&NG Rights	479	—	201	1,304	349
Issue of Common Shares	—	76	1,651	29	5
Other	1,723	14	42	(53)	82
Total	11,784	7,830	6,079	4,101	3,059
Application of Funds					
Property, Plant & Equipment	9,261	8,750	4,404	2,703	2,187
Investments	10,009	1,154	—	—	274
Dividends of Pooled Subsidiary	—	—	2,987	795	1,709
Total	19,270	9,904	7,391	3,498	4,170
Increase (Decrease) In Working Capital	(7,486)	(2,074)	(1,312)	603	(1,111)

* In 1973, the Company's year end was changed from August 31 to October 31. Therefore, 1973 represents 14 months.

	1975	1974	1973	1972	1971
Operations					
Production					
Daily Production — barrels	3,160	3,542	1,555	261	144
— MCF	18,100	16,352	7,107	4,300	3,800
Reserves (proven and probable) (*)					
Oil (thousands of barrels)	12,436	13,053	13,020	1,442	1,251
NGL (thousands of barrels)	1,312	1,345	1,752	272	287
Gas (millions of cubic ft.)	181,510	131,410	125,560	49,700	46,900
Sulphur (long tons)	42,500	44,770	113,280	53,600	54,700
Land Holdings (thousands of acres)					
Canada					
Gross Acres	30,111	57,020	60,212	66,906	72,698
Net Acres	11,186	29,565	31,433	32,360	41,884
Royalty Acres	39,162	41,530	41,991	46,233	46,426
Hudson Bay Mineral Titles	2,970	3,726	4,599	4,599	4,599
Foreign					
Gross Acres	9,037	14,145	13,286	5,447	4,882
Net Acres	5,658	2,670	1,958	2,578	2,142
Royalty Acres	20	43	82	82	—

(*) Note Reserves reported are net after Crown and freehold royalties.

Siebens
OIL & GAS LTD.

1975 Annual Report

QUAD-M GRAPHIC RESOURCES LTD.
ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA

SIEBENS OIL & GAS LTD.
300 Three Calgary Place
Calgary, Alberta T2P 0J1

CANCORP

54

Siebens OIL & GAS LTD.

INTERIM REPORT TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
APRIL 30, 1975

TO THE SHAREHOLDERS

FINANCIAL

The Company achieved improved financial results during the first six months of the 1975 fiscal year. Gross revenues increased 59.0% to $5,472,500. Cash flow was up 65.0% to $5,012,195 or $.55 per share as compared to $.33 per share for the previously reported first six months.

Net earnings increased 45.1% to $2,339,-303 or $.26 per share as compared to $1,612,-681 of $.17 per share for the prior period. During the reported period our investment to date in Abu Dhabi was written off to income. Our holdings were relinquished after review of seismic which, in our opinion, indicated the area to be unattractive for further exploration. Under our accounting policy, costs of exploration in foreign areas are depleted on the basis of oil and gas reserves as and when discovered or written off to income if exploration in any area is determined to be unsuccessful. This write-off was partially offset by an adjustment to deferred income taxes which were over-estimated for the year ended October 31, 1974. The adjustment is based on more extensive information available at this time concerning Income Tax Act amendments originally introduced in the November 18, 1974 Federal Budget.

Exploration and Development expenditures for the period were $3,033,382 as compared to $5,559,524 for the prior period. Working Capital at April 30, 1975 was $7,399,001.

CANADIAN OPERATIONS

Western Canada

During the six month period ending April 30, 1975, the Company participated in the drilling of 26 wells of which 12 were completed as potential gas wells, 3 as oil wells and 11 were dry and abandoned. During the same period 37 wells were drilled on our Hudson's Bay mineral titles under a long term option to Hudson's Bay Oil and Gas Company Limited and which resulted in 15 gas wells, 8 oil wells and 14 abandonments. Drilling programs on these mineral titles will continue for many years to come at no cost to the Company, the income from which represents 75% of the Company's gross revenue. Substantial increases in cash flow for the balance of this fiscal year and in following years from increased product prices and increased production from discoveries will ensure an active, diversified drilling program for the Company for the future.

Arctic Islands

Negotiations were recently completed with Phillips Petroleum Canada Ltd. whereby Phillips may earn an interest in 10,437,108 gross acres held 25% by the Company in the Sverdrup Basin and between Melville and Bathurst Islands. By assuming certain work obligations, Phillips will have the option to commence a multi-well exploratory drilling program on the farmout lands in order to earn its interest.

SIEBENS OIL & GAS (U.K.) LIMITED

U.K. North Sea - Block 2/10

On April 2nd, 1975, Siebens Oil & Gas (U.K.) Limited announced the discovery of hydrocarbons in their U.K. North Sea well 2/10-1A, located sixty miles east of the Shetland Islands, twelve miles south of the Heather

Field and sixteen miles west of the Ninian Field. Although the well was successful in coring and logging in the Jurassic pay horizon, the results from which are considered encouraging, mechanical difficulties encountered at total depth of 12,145 feet rendered testing impracticable. The well was subsequently suspended in favour of drilling a series of delineation wells to determine the commercial and production potential of the field. The semi-submersible drilling rig Western Pacesetter 1 is expected to return to drill the first of three consecutive appraisal wells in July, 1975. Siebens Oil & Gas (U.K.) Limited has a 95% interest in Block 2/10 and in turn, 27.23% of the shares of this affiliated company are owned by Siebens Canada.

Block 16/7

The Pan Ocean U.K. Group, in which Siebens Oil & Gas (U.K.) Limited is a 10% participant, completed testing of its discovery well in Block 16/7 and announced it would be named the Brae Field. Stabilized flow rates in excess of 22,000 barrels per day were recovered from seven different selected pay intervals. These flow rates, which were measured through restricted chokes varying from one-half to one inch in size, confirmed good reservoir flow characteristics. A gross pay interval of over 500 feet of continuous upper Jurassic sandstone was encountered at a depth of approximately 12,000 feet. The oil gravity ranged from 35° API with a gas-oil ratio of 3000 cubic feet per barrel in the lower part of the pay zone up to 46° API with a gas-oil ratio of about 7000 cubic feet per barrel in the top part of the zone.

The semi-submersible drilling rig Odin Drill has moved to the Norwegian sector to drill one well and will return to the Pan Ocean Group in July, 1975 for a further test on a separate structure in Block 16/7.

German North Sea

Siebens Oil & Gas (U.K.) Limited holds a 45% interest in four blocks located in the German North Sea. A farmout agreement was recently concluded with Mobil Deutschland AG whereby Mobil will earn a 22½% interest in two of these blocks by assuming the Siebens (U.K.) share of the cost of drilling two exploratory wells on the farmout lands. Drilling is expected to commence in early 1976.

Rights Issue

On May 21, 1975 Siebens Oil & Gas (U.K.) Limited announced a rights issue whereby approximately $20.0 million will be raised to provide funds for further appraisal and exploration programs. Your Company has undertaken to subscribe for its full allotment of new shares and to take up additional shares to increase its holdings in Siebens U.K. from 27.23% to 31.7%. This investment in Siebens (U.K.) will amount to approximately $8.5 million and will be provided by present working capital and future cash flow.

W. W. SIEBENS
President

May, 1975

SIEBENS OIL & GAS LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	Six Months Ended April 30 1975	Six Months Ended April 30 1974
REVENUE		
Oil and gas sales	$4,618,808	$ 2,849,475
Interest	383,692	486,709
Other	470,000	104,820
	5,472,500	3,441,004
EXPENSES		
Production expenses	249,905	145,960
General and administrative	175,202	177,827
Depletion and amortization	1,767,706	393,811
Depreciation	43,836	37,465
	2,236,649	755,063
NET EARNINGS BEFORE INCOME TAXES	3,235,851	2,685,941
INCOME TAXES		
Current	35,188	90,260
Deferred	861,360	983,000
	896,548	1,073,260
NET EARNINGS	$2,339,303	$ 1,612,681
NET EARNINGS PER SHARE	26¢	17¢

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(Unaudited)

	Six Months Ended April 30 1975	Six Months Ended April 30 1974
SOURCE OF FUNDS		
From operations	$5,012,195	$ 3,038,527
Issue of common shares	—	73,684
Other	(165,677)	(80,218)
	4,846,518	3,031,993
APPLICATION OF FUNDS		
Investments	594,316	—
Property, plant and equipment	3,033,382	5,559,524
	3,627,698	5,559,524
INCREASE (DECREASE) IN WORKING CAPITAL	$1,218,820	$(2,527,531)
CASH FLOW PER SHARE	55¢	33¢